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ABSTRACT

In this era of constrained resources, the public and private sectors must join forces to revitalize their local urban communities. Public-private partnership means cooperation among individuals and organizations in the public and private sectors for mutual benefit. Such cooperation has two dimensions--the policy dimension and the operational dimension. The policy dimension involves a process that produces consensus on community goals, agreement on institutional roles, and sustained support for action. In the operational dimension, cooperation can take any of the following general forms: private initiative for public benefit, government initiative to facilitate or encourage private activity in the public interest, and joint ventures by government and private organizations. Three areas of urban life that can benefit from, and in some instances may require, partnership efforts are the local economy, neighborhoods, and community services. Because the social and economic conditions of the community have a direct effect on the bottom-line interest of business, businesses must take direct and effective action to improve these conditions. While it is true that external forces over which a community has no control do effect its potential for local partnerships, local communities nevertheless have both substantial latitude to determine and principal responsibility for their own future. (MN)

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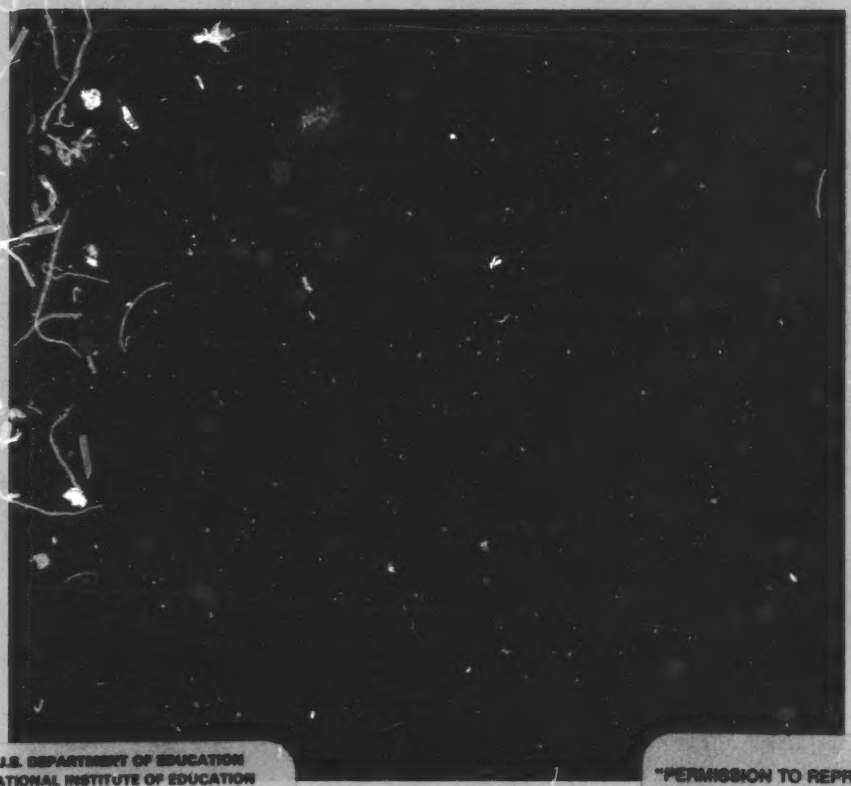
PUBLIC-PRIVATE PARTNERSHIP

An Opportunity For Urban Communities

A Statement by the Research and Policy Committee of the Committee for Economic Development

February 1982



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The Committee for Economic Development is an independent research and educational organization of two hundred business executives and educators. CED is nonprofit, nonpartisan, and nonpolitical. Its purpose is to propose policies that will help to bring about steady economic growth at high employment and reasonably stable prices, increase productivity and living standards, provide greater and more equal opportunity for every citizen, and improve the quality of life for all. A more complete description of CED is to be found on page 106.

All CED policy recommendations must have the approval of the Research and Policy Committee, trustees whose names are listed on page vii. This Committee is directed under the bylaws to "initiate studies into the principles of business policy and of public policy which will foster the full contribution by industry and commerce to the attainment and maintenance" of the objectives stated above. The bylaws emphasize that "all research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group." The Committee is aided by a Research Advisory Board of leading social scientists and by a small permanent professional staff.

The Research and Policy Committee is not attempting to pass judgement on any pending specific legislative proposals; its purpose is to urge careful consideration of the objectives set forth in this statement and of the best means of accomplishing those objectives.

Each statement is preceded by extensive discussions, meetings, and exchanges of memoranda. The research is undertaken by a subcommittee, assisted by advisors chosen for their competence in the field under study. The members and advisors of the subcommittee that prepared this statement are listed on page viii.

The full Research and Policy Committee participates in the drafting of findings and recommendations. Likewise, the trustees on the drafting subcommittee vote to approve or disapprove a policy statement, and they share with the Research and Policy Committee the privilege of submitting individual comments for publication, as noted on pages vii and viii and on the appropriate page of the text of the statement.

Except for the members of the Research and Policy Committee and the responsible subcommittee, the recommendations presented herein are not necessarily endorsed by other trustees or by the advisors, contributors, staff members, or others associated with CED.

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PURPOSE OF THIS STATEMENT

The problems facing America's cities and towns reflect—and sometimes magnify—many of the larger, deep-seated problems facing the nation as a whole. Slow economic growth, chronic inflation and unemployment, reduced competitiveness, and low investment are perhaps all the more visible in the nation's urban areas.

For 40 years, the Committee for Economic Development has been working to develop policies that promote steady economic growth with stable prices and high employment. Our program for the 1980s continues these efforts, and we firmly believe that efforts to promote a vigorous national economy are basic to the health and success of urban communities. However, we also recognize that in a new era of constrained federal, state, and local resources, new strategies must be developed that can provide creative and innovative solutions to the problems of towns, cities, and counties.

When CED's Subcommittee on Revitalizing America's Cities was formed in early 1977, many CED Trustees were concerned that federal urban policy was too frequently developed on a short-term, ad hoc basis with too little attention paid to the special needs of individual cities and regions. In December of that year, CED issued the policy statement *An Approach to Federal Urban Policy*, which urged the federal government to target and tailor its urban aid more effectively and to take more account of urban diversity in developing programs which affect cities.

The 1977 report concluded that the most desirable and workable approaches to revitalizing urban communities are those initiatives which are designed and carried out locally, and it stated CED's intention to conduct a major study of existing local public-private partnerships which have been successful in improving urban communities. This policy statement is the result of that effort.

Later in 1982, CED will issue a companion volume, *Public-Private Partnership in American Cities: Seven Case Studies*, which details the experiences of Atlanta, Baltimore, Chicago, Dallas, Minneapolis-St. Paul, Pittsburgh, and Portland (Ore.). This policy statement is based not only on these case studies of successful experiences in public-private partnership, but on the experiences reported by members of CED's board, many of whom are actively involved in cooperative business-government efforts in their own areas.

COMMUNITIES AND THE CED AGENDA

Policies that promote national economic growth and stability are a prerequisite for long-term urban vitality, and CED's recent program stresses the interrelationships among the major economic and social problems that the United States will face in the coming years.

For example, long-term growth and stability for the cities and for the country as a whole will depend on adequate capital investment in knowledge, in people, and in plant and equipment as well as on controlling inflation, improving productivity, and on ensuring an adequate and reliable energy supply.

CED's Subcommittee on Productivity is now assessing the causes of the nation's declining productivity and is developing recommendations to reverse current trends. Improved productivity and improved use of all sectors of the workforce—including older workers and the disadvantaged—will be critically important to increasing the future growth potential of our urban areas.

Another CED project, the Subcommittee on Industrial Strategy and Trade, is considering ways to increase competitiveness both here and abroad and to bolster the strength of U.S. industry, clearly a subject of great importance to American communities. Much needs to be done to increase capital investment and to bring about the most effective allocation of investment resources through maximum use of competitive market forces and by tax policies that are not biased against investment.

Later this year, CED will issue a new report on energy, *Energy Pricing and Public Policy*, which will discuss ways that market pricing of energy can be used to bring about more efficient use of energy resources and at the same time offer some protection to low-income consumers. But in applying market pricing to energy and to other aspects of the economy, it is important to realize that resources will be most effectively allocated only if there are adequate "safety nets" for those who would be seriously hurt by the higher prices caused by market adjustments.

This CED statement on urban areas is directed to one facet of an interlocking set of problems facing the nation. Other recent CED statements have dealt with such other facets as jobs for the hard-to-employ, the Congressional budget process, retirement and Social Security, inflation, and government regulation. Each of CED's studies recognizes that decisions in one area of public policy often have a major impact on others, and we are thus engaged in building an integrated structure of policies, each of which contributes to achieving the overall long-term goal of economic growth and stability.

ACKNOWLEDGMENTS

On behalf of the Research and Policy Committee, I wish to express deep appreciation and thanks to William S. Edgerly, chairman and president of the State Street Bank and Trust Company. As chairman of the CED Subcommittee on Revitalizing America's Cities during the framing of the recommendations, he brought perceptive and persuasive leadership to a demanding effort. I also wish to acknowledge the formidable contribution of Philip M. Klutznick, who until he became Secretary of Commerce in 1979, served as chairman of this subcommittee.

Our gratitude also goes to members of the Subcommittee, whose names appear on page viii, for their insight and willingness to share their knowledge and experiences in public-private ventures. A listing of the individuals who researched and wrote the CED volume of case studies appears at the back of this book.

Very special thanks from this Committee is also due to Project Director R. Scott Fosler, CED's vice president and director of government studies, who brought foresight, a strong sense of balance, and an incisive approach to a complex subject.

We also wish to thank Renee Berger of the Committee for Economic Development for her contribution to this project and to the chapter on neighborhood redevelopment and to Larry C. Ledebur of The Urban Institute for his work on local economic development.

Finally, this project could not have been completed without the generous assistance of the forward-looking foundations and corporations listed on page v. Their support is an encouraging sign of the private sector's commitment to addressing the needs of America's urban communities.

Franklin A. Lindsay
Chairman
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CHAPTER ONE

INTRODUCTION AND SUMMARY OF CONCLUSIONS

Public-private partnerships are a source of energy and vitality for America's urban communities. Successful experience with such partnerships spans the decades and the country. It is up to the leaders in government, business, labor, nonprofit organizations, educational institutions, and civic associations to carry this experience forward.*

Over the years, the public sector in the United States has taken increasing responsibility for addressing the needs of the nation's urban areas. Within the public sector, the driving force has been the federal government. But these conditions are changing. Greater responsibility is confronting the private sector and local communities. The issue addressed by this statement is how the public and private sectors[1] in those communities can work together in practical ways to meet this challenge.

THE POTENTIAL FOR PARTNERSHIP

Whether growing or contracting, young or old, large or small, in the Frost Belt or Sun Belt, America's urban communities possess the resources of an advanced and affluent society: highly educated and skilled individuals, productive social and economic institutions, sophisticated technology, physical infrastructure, transportation and communications networks, and access to capital. Developing this potential will require cooperation.

[1] See the Appendix for a definition of the public and private sectors.

*See memorandum by H. J. HEINZ II, page 101.

Local governments will need to define their role and manage their operations in new ways. They will require active assistance and appropriate legal, financial, and administrative tools from their state governments. To make full use of the private sector's potential, local governments will need to adopt an entrepreneurial approach that anticipates needs, seeks out opportunities, and encourages an effective coalition of public and private efforts.

The private sector, in turn, needs to determine what it realistically can contribute. If it sets its goals too high, its performance will fail to match expectations. The private sector cannot assume full responsibility for meeting needs that will result from cutbacks in federal domestic programs. However, if the local private sector is unwilling to make a sufficient commitment of money and effort, its community will lose position to those that respond more energetically.

DEFINING PUBLIC-PRIVATE PARTNERSHIP

Public-private partnership means cooperation among individuals and organizations in the public and private sectors for mutual benefit. Such cooperation has two dimensions: the policy dimension, in which the goals of the community are articulated, and the operational dimension, in which those goals are pursued. The purpose of public-private partnership is to link these dimensions in such a way that the participants contribute to the benefit of the broader community while promoting their own individual or organizational interests.

THE POLICY DIMENSION

The policy dimension involves a process that produces consensus on community goals, agreement on institutional roles, and sustained support for action. The more complex the operating partnership—entailing significant capital investment, innovative institutional arrangements, disruption in the routine of community life, or long periods of time for implementation—the more important the civic foundations of that process.

Those civic foundations include:

- A civic culture that fosters a sense of community and encourages citizen participation rooted in practical concern for the community
- A commonly accepted vision of the community that recognizes its strengths and weaknesses and involves key groups in the process of identifying what the community can become

- Building-block civic organizations that blend the self-interests of members with the broader interests of the community and translate those mutually held goals into effective action

- A network among key groups that encourages communication and facilitates the mediation of differences

- Leadership and the ability to nurture "civic entrepreneurs," that is, leaders whose knowledge, imagination, and energy are directed toward enterprises that benefit the community

- Continuity in policy, including the ability to adapt to changing circumstances, that fosters confidence in sustained enterprise

THE OPERATIONAL DIMENSION

In the operational dimension, cooperation can take three general forms:

PRIVATE INITIATIVE FOR PUBLIC BENEFIT. Private organizations can act on their own to address public needs. They need not be motivated by government prompting or work directly with government. Two or more private organizations—for example, two businesses, a business and a nonprofit organization, or a foundation, a nonprofit organization, and a neighborhood association—might also form a joint venture.

GOVERNMENT INITIATIVE TO FACILITATE OR ENCOURAGE PRIVATE ACTIVITY IN THE PUBLIC INTEREST. Governments can facilitate private action by removing impediments to it, and they can encourage private action by providing leadership, incentives, and supporting services. Although these initiatives do not require the formal agreement of private organizations, they may be formulated on the basis of consultation with affected organizations.

JOINT VENTURES BY GOVERNMENT AND PRIVATE ORGANIZATIONS. Government and private-sector organizations can consciously work together through informal understandings, mutually adopted plans, cooperative working relationships, or legally binding agreements. Either side may initiate a joint venture, but both (or all) must voluntarily participate. Such joint ventures may involve a government and a business, a government and a nonprofit organization, or a government, a business, and a neighborhood association.

OPPORTUNITIES FOR PARTNERSHIP

Three areas of urban life that can benefit from, and in certain instances may require, partnership efforts are: the local economy, neighborhoods, and community services. Each involves economic, social, and political factors that are neither exclusively private nor wholly public. Success in each area, in turn, requires support from the others.

THE LOCAL ECONOMY

The economic base of an urban area provides goods and services for local consumption, jobs and income for residents, and a resource and tax base for community services and public amenities. Economic development today requires conscious effort by local government and private-sector organizations to retain existing businesses, facilitate the opening of new businesses, attract outside investment, create jobs for local residents (with special attention to training and placement of the hard-to-employ), and foster a climate supportive of business expansion that is compatible with other community goals.

- *Private initiatives* include actions by businesses or business associations in development assessment and planning, promoting the community's image, establishing favorable purchasing and hiring policies, providing technical assistance to other firms, and making corporate operating and investment decisions (especially with regard to siting) designed to enhance the local economy.
- *Government initiatives* include helping businesses to expand or solving problems that could lead to their departure, promoting the community to attract new investment, assembling land for development, providing physical infrastructure and public services, establishing incentives for business growth, and creating a healthy business climate.
- *Collaborative efforts* by government and private organizations include establishing joint development goals, joint-venture development projects, joint efforts to train and find jobs for the hard-to-employ, and "financial packaging" that includes a mix of resources that appropriately reflects the public and private interest in development.

NEIGHBORHOODS

A neighborhood is composed of residents, their social institutions (family, religious institutions, ethnic groups, neighborhood associations), housing, commerce and industry, and community services. Too often in the past, neighborhoods were either ignored or subjected to policies that

caused wrenching change. More recent successful experiences suggest that it is desirable for both government and private organizations to help preserve the existing physical and social assets of neighborhoods, promote housing and commercial development compatible with those assets, and support the self-help efforts of residents who are addressing their own needs.

It is in the private sector that the most hopeful initiatives for neighborhood improvement can occur. Self-help organizations provide an effective mechanism for tapping the knowledge and motivation of local residents. In support of these efforts, foundations and businesses can provide important resources of money, expertise, and organizational participation. Intermediary groups can help to target resources and work with local self-help groups to increase the likelihood of success.

Governments can provide financial incentives (grants, loans, tax credits or exemptions), take administrative actions (technical assistance or modification of code requirements and land-use regulations), and assure the provision of critical community services.

Government, business, foundations, nonprofit organizations, and neighborhood associations can coordinate their efforts so that a neighborhood's scarce resources are used most effectively to assure adequate housing, appropriate commercial and industrial enterprise, and the provision of community services.

COMMUNITY SERVICES

Key community services that are chronically deficient include education, transportation, public safety, social services, health, solid waste management, and water supply and sewage treatment. As users, taxpayers, and providers, the private sector has an important stake in the provision of these community services.

Private organizations can offer support and expertise to local governments in their efforts to raise the revenues required to finance essential public services, improve management and productivity, and consider ways of reducing services with minimal impact.

Local governments should distinguish between their roles as policy makers and service providers in considering how best to meet public needs. Rather than only provide services themselves in the conventional way, through monopolistic agencies financed by general taxes, local governments should consider such alternatives as:

- More effective use of the traditional tools of governance, including leadership and advocacy, support of public participation and volun-

tary services, and effective assessment of costs and benefits in formulating regulation, tax, and financial policy

- Enhancing the private sector's role in community services by encouraging and facilitating private provision of services where appropriate and by improving the interaction among government, private organizations, and individuals when all are involved in the operation of services
- Structuring public services for higher performance through the selective use of user fees, competition, and appropriate scale of operation

CORPORATE PUBLIC INVOLVEMENT

Businesses should view the improvement of social and economic conditions in the communities in which they operate as a goal tied so closely to their bottom-line interests that it requires direct and effective action. This means going beyond traditional corporate philanthropy. It means more active and effective involvement by the corporation, including:

- Use of the full range of resources available for community purposes, including employees, facilities and services, operation and investment decisions, and leadership, as well as financial contributions
- Integration of the public-involvement function into the corporate management structure*
- Establishing standards of performance and procedures for accountability in the public-involvement function akin to those applied to the traditional business functions of the corporation

THE NATIONAL CONTEXT

Although the potential for local partnerships is substantial, it is nonetheless affected by external forces over which a community has little or no control. National and international economic conditions can undermine imaginative local efforts. Federal government policy, including fiscal, monetary, trade, tax, expenditure, and regulatory policies and grant programs, can have a profound effect on local economies and governments. The state government has always had a significant impact on local communities, especially since local governments derive their legal, financial, and administrative powers from the states. The state, whose role in recent years has been underestimated and largely unrecognized, is emerging as a pivotal if not a predominant force in the federal system.

*See memorandum by H. J. HEINZ II, page 101.

The effectiveness of the federal system in using public resources will, in part, determine the success of local government partnerships with the private sector.

THE CHALLENGE TO LOCAL LEADERSHIP

External forces should be neither ignored nor underestimated. But whatever conditions prevail,* local communities will have both substantial latitude to determine and principal responsibility for their own future. Public-private partnerships are not a panacea, nor are they free of pitfalls. What they do provide is an opportunity to use more fully the untapped potential that exists in every community.

In fashioning local partnerships, there is no substitute for the judgment and leadership of individuals who live in a community, are knowledgeable about its people and institutions, and care about its future. The experiences described in this statement are based on an in-depth study of seven urban areas,[1] more than seventy-five case examples supplied by the Committee for Economic Development's trustee companies, and an analysis of information from other communities, including counties, townships, and municipalities. The observations drawn from those experiences offer a practical source of information to community leaders.

The examples of successful partnerships included in this statement also provide two types of incentives for community leaders. One is recognizing the opportunities suggested by the examples of success elsewhere. The other lies in realizing that the willingness of some leaders to tackle their own problems aggressively will leave more reticent communities at a needless disadvantage.

The evidence of recent decades demonstrates that communities which actively mobilize their public *and* private resources can deal effectively with difficult problems and create new opportunities.

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[1]/ The case studies are included in Scott Fosler and Renee Berger (editors), *Public-Private Partnership in American Cities: Seven Case Studies*, to be published in 1982 as a separate volume complementary to this policy statement. The seven cities studied were Atlanta, Baltimore, Chicago, Dallas, Minneapolis–St. Paul, Pittsburgh, and Portland, Oregon.

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*See memorandum by W. D. EBERLE, page 101.

CHAPTER TWO

THE CIVIC FOUNDATIONS OF EFFECTIVE PARTNERSHIP

Some communities have enviable records of sustained public-private cooperation; others have reputations for discord and acrimony. Neither condition is inevitable nor irreversible. In fact, few (if any) communities in the United States have enjoyed uninterrupted cooperative relationships between the public and private sectors. Most cities, even those cited today as positive examples, have gone through periods of discord as well as harmony.

Severe social disorders, economic crises or competition, or natural disasters may provide the common interest that bands citizens and institutions together and stimulates them to action. Long periods of apparent harmony and prosperity, on the other hand, may foster the luxury of lazy habits and petty disputes that can lead to the deterioration of political or economic relationships.

In some cities, the development of more productive relationships can be traced directly to groups and individuals who generated ideas, seized opportunities, and persevered to reverse a community's declining fortunes. For example, the Greater Baltimore Committee (GBC), a business-civic group that did much to promote the revitalization of downtown Baltimore, was established through the initiative of a civic organization, the Citizens Planning and Housing Association (CPHA, see box on page 22). The founders of GBC made a special trip to Pittsburgh to learn how the civic leaders of that city had organized the successful Allegheny Conference. They then used that organization as a model of how to infuse new spirit into urban development.

In other cases, the forces for change are not so easily identified. They may, in fact, result from slow and imperceptible changes in economic factors or hundreds of small adjustments in personal attitudes and ties.

It is clear that fostering partnership arrangements requires leadership. At some point, one or more key individuals in the community must take action to create the organizations, nurture the personal ties, provide the direction, and sustain the effort necessary to develop more effective relationships between the public and private sectors. Whereas cataclysmic events can produce effective leaders because people are more willing to follow during times of crisis, it is not so clear which conditions are most conducive to generating such leadership and supporting its enterprise under more normal circumstances.

REHABILITATING THE CIVIC TRADITION

Urban communities exist by virtue of a civic bond that reflects the collective interest of its individual members in living in the same place. That civic bond may be weak or strong, implicit or conscious, embraced or imposed, but it must exist in some form for the community to be able to function.

The colonial and frontier experiences of American communities produced a strong civic tradition. People joined together in common pursuits that benefited all; because they were confronting a hostile environment, they had a very practical personal interest in doing so. Alexis de Tocqueville's widely cited observation, made in the 1830s, of the distinctive American characteristic of forming associations is one reflection of that civic tradition. It is a tradition that neither ignores nor contradicts the reality of self-interest or of political power. It simply acknowledges that individuals and political groups have a common practical interest, a civic interest, in preserving the political principles, social customs, and economic well-being of the community in which they live.

The line that divides individual concerns from interest in protecting or enhancing the community is rarely well defined. Clarifying that boundary involves profound questions of philosophy, religion, morals, and law. Such questions are all the more complex in a society of large urban agglomerations whose parts are diverse, highly specialized, and willful. Nonetheless, for any given urban community, the question in its general form is a simple one: Will the civic interest in a healthy community predominate over individual, group, or organizational interests that may be pursued, knowingly or in ignorance, to the detriment of the community?

In some communities, the civic tradition is very much alive; in others, it has been taken for granted or fallen into disrepair. In some, it has deterio-

rated into a sentimental yearning for presumably better times or has rigidly adhered to hoary principles of civic virtue that are unrealistic or self-serving of powerful groups. But in others, the civic tradition is vibrant and adaptive. It accommodates to change, is tolerant of pluralism, and seeks new ways to blend the interests of citizens and focus their energies in pursuit of goals that benefit all.

There is no simple formula for repairing or strengthening the civic tradition. For nearly a century, such organizations as the National Municipal League (recently renamed the Citizens Forum on Self-Government) have worked to preserve the American civic tradition and to make its contemporary application relevant. The next decade will undoubtedly deepen our understanding of how to fashion the civic foundations in contemporary urban society, for we are entering a period when a community's well-being will depend increasingly on its own definition and on its own resolve.

Certain characteristics of the civic life of a community are already associated with successful public-private partnership. These include a positive civic culture, a realistic community vision, effective building-block civic organizations, a relationship among key groups and leaders that encourages communication and facilitates mediation of differences, an inclination to nurture and support civic entrepreneurs, and continuity in policy. These characteristics are not necessarily the *causes* of successful partnership; they may, in fact, often be *consequences* of such partnership or of other factors that foster partnership. In either case, we believe that they are conducive to success. It is significant that these are all conditions that local citizens can bring about, even if the larger regional, national, or international environment is adverse to the community or if such efforts have failed in the past.

We also believe that several other factors considered to be impediments to partnership are not necessarily decisive. These are factors over which a community generally has little direct control in any case. They include a city's age, its size, whether it is growing or contracting in economic activity and population, the racial and ethnic mix of its population, whether political power is concentrated or dispersed, and whether it enjoys a high concentration of corporate headquarters.

These factors may not be decisive, but that does not mean that they have no impact on public-private partnership. Strained relations among racial and ethnic groups, political pluralism in the absence of the mechanisms or the will to develop consensus, or a rapidly declining economic base could impede efforts to forge more productive relations between the public and private sectors. However, the existence of racial and ethnic diversity need not inevitably produce tension, the dispersion of political

power need not rule out cooperation, nor does the loss of population, jobs, or businesses prohibit those citizens and firms that remain from doing something to reverse, compensate for, or even take advantage of existing conditions.

POSITIVE CIVIC CULTURE

Success in public-private relationships depends quite simply on having people who work together trust one another. With such trust, there is little that cannot be accomplished; without it, little is likely to work.

Trust in civic affairs develops from such practical considerations as personal acquaintance among key leaders, confidence in the processes by which decisions are made and carried out, shared experience in cooperative ventures, and knowledge, through observation of past performance, of who keep their pledges and fulfill their responsibilities. Where government is perceived as a willing partner and competent colleague, it is usually because government has, in fact, worked cooperatively and done its job well. Where the private sector is viewed as committed to the well-being of the community, it is usually because private leaders have made tangible contributions and have willingly adjusted their organizational objectives to the interests of the community.

A positive civic culture requires mutual respect among its participants. Each key group—government, business, nonprofit organizations, labor, minorities, social institutions, neighborhood associations—is perceived by the others as a legitimate member of the community and capable of performing its unique function well. For example, government officials recognize that business provides the economic base without which the community would not exist; business acknowledges that government is essential to the proper functioning of the economy and the general health and livability of the community. Government understands that the success of business rests on its ability to meet payrolls and make a profit; business recognizes that government is a political institution whose success is measured by the community's expressed confidence in it.

A positive civic culture depends upon and encourages active citizen participation. Such participation has been described in different communities as "a tradition of civic activity," "a heritage of involvement," "a polity of discussion (see box on page 12)," and "willingness to participate," but its essence is citizens engaged in civic activity that benefits the community not only for altruistic reasons but also because they believe it is in their own interest to do so.

COMMUNITY VISION

A community's view of itself and where it ought to be going is expressed in numerous ways: formal documents, the statements and actions of its leaders, comment by analysts and the media, and the words and actions of its citizens. An effective community vision, however, includes the ability to see beyond pronouncements, laws, plans, and budgets to discern the intangible qualities of human feeling, motivation, tradition, and aspiration that constitute the collective spirit of a community. Developing and expressing that vision are not solely government functions; in some communities, private-sector leaders have taken the initiative to articulate and expand it.

The most concrete expressions of visions of the future are specific plans that are formulated through consensus, realistic in expectations, perceptive about community potential, and closely tied to practical mechanisms for implementation. Such plans can provide direction for a thousand decision makers, both public and private. Public-private partnerships, especially those formed to undertake substantial physical development, need to be firmly rooted in plans that are realistic and that have popular support.

- Goals for Dallas has served as a model for many other communities and has been described as the largest and possibly the oldest experiment in urban goal setting in the United States. Initiated in 1964, this effort was embraced early by the city's leadership and ultimately

A "POLITY OF DISCUSSION" IN MINNESOTA

In January 1981, key leaders in Minnesota gathered for discussion of alternatives to conventional public services in the Twin Cities. Participants included the governor, one of the state's U.S. senators, a congressman, the mayors of St. Paul and Minneapolis, state legislators, city and county council members, business executives, labor leaders, educators, heads of key nonprofit organizations, journalists, and representatives of neighborhood organizations, civic associations, and numerous other community groups. The meeting, organized by the Citizens League to discuss a league report entitled *Enlarging Our Capacity to Adapt*, included brief presentations by organizations that had undertaken innovative approaches to deal with the rising cost and decreasing effectiveness of services and active discussion by participants.

SOURCE: Based on John Brandl and Ronnie Brooks, "Public-Private Cooperation for Urban Revitalization: The Minneapolis and St. Paul Experience" (Paper prepared for the Committee for Economic Development, New York, 1981).

involved over 100,000 persons in planning committees and neighborhood gatherings between 1966 and 1977.

Participation in Goals for Dallas is broad-based, including citizens, business leaders, and public officials at all levels. Initially, ninety-eight goals for the city were presented to neighborhoods for alteration and revision. This project is now in the implementation phase of its second major round of goal setting. Two hundred goals have been adopted and are being managed by seventeen task forces. Approximately 100 organizations are identified as lead agencies for achieving specific goals.[1]

- Chicago, with its tradition of planning through close-knit coalitions of business leaders, politicians, and union officials, is a unique example of setting urban goals and agendas.[2] In 1906, the Merchants Club, an organization of business leaders, commissioned Daniel H. Burnham to prepare a plan for Chicago. *Monumental City Beautiful: The Chicago Plan* was adopted by the city in 1910 and set the guidelines for the process of development that was to continue until World War II. Chicagoans respect planning and the intricacies of the process.

Effective plans that express a community's vision of its future are not mere static documents such as those that too often characterize local land-use planning. They reflect the strategic planning of the community: the determination of goals and values that suggest what the community would like to do, an assessment of opportunities and challenges that constrain what might be done, an analysis of the community strengths and weaknesses that constitute the ability to do, and the blending of these considerations into a plan of action that the community agrees to undertake.

Equally important is the process through which the plan was developed. If that process successfully takes into account the knowledge and the views of key groups, it is more likely to be an accurate reflection of the capabilities and aspirations of the community. By participating in the plan's formulation, those groups are more likely to support it, not only because it reflects their interests but also because they feel a personal stake in having developed it. Successful implementation of the plan is all the more likely because the various groups that play a role in it will understand the ideas

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[1]/ Based on William Claggett, "Dallas: A Case Study of the Dynamics of Public-Private Cooperation" (Paper prepared for the Committee for Economic Development, New York, 1981).

[2]/ Based on Pastora San Juan Cafferty and William C. McCready, "The Process of Economic Development in Chicago: The Heritage of Involvement" (Paper prepared for the Committee for Economic Development, New York, 1981).

and be familiar with details that guided its development. The process is also important as a means of improving communication and understanding among the key groups and leaders who will need to work together in successfully implementing the plan.

We believe that communities determined to improve their conditions would be well served by conscious attention to developing a constructive vision of their future. However formal or informal, this vision must win general community support if it is to be effective.

BUILDING BLOCKS OF A CIVIC STRUCTURE

Effective civic organization blends the interests of diverse groups and their members with the interests of the community as a whole. In highly pluralistic American communities, this requires individuals and groups to be well organized and capable of articulating their own goals while remaining conscious of how those goals can be made compatible with the goals of others and with the interests of the community.

Almost every community has a wide range of advocacy organizations whose visions are usually limited to the concerns of their members. They tend to operate on the assumption that the pursuit of their own interests and success in realizing them have no significant impact on the general well-being of the community. Civic consciousness begins when such advocacy groups recognize that their actions not only influence the system to get what they want but can fundamentally change the system, for better or worse, and its ability to provide what they ultimately can have.

Another type of building-block organization is made up of members who have similar interests but whose purpose is to improve the community as a whole, rather than to pursue the narrower interests of its members. Such groups may represent business, labor, homeowners, taxpayers, public-service recipients, or others. It is appropriate that this Committee examine the role of those organizations that represent business.

BUSINESS-CIVIC ORGANIZATIONS

Business-civic organizations take a broad view of business interests as they relate to the economic strength, social harmony, environmental health, and physical attractiveness of the community. They recognize not only that business stands to gain or lose by the fortunes of the community but also that as a principal and powerful component of the community, business can affect those fortunes through collective action. Their purpose is to be an effective participant in addressing the needs of the community, not to be an adversary of the nonbusiness sector.

Some of the most successful business-civic organizations have been made up of the chief executive officers (CEOs) of the principal corporations in a city. It is especially important for businesses that have a special stake in the community, such as banks, retail establishments, and utilities, to take a leadership role. In the more successful organizations of this type, the CEO members typically insist on the personal participation of their peers, which gives the organization prestige, the ability to make timely and authoritative decisions, and the influence to implement those decisions. The peer pressure for active, personal participation reinforces the commitment; active CEOs are known to spend thirty-five hours a month and more on the work of such organizations. Typically, the core group of business leaders will be active in numerous other community organizations, which provides them with both exposure to people and issues and leverage in carrying out policies. **We recommend that the chief executive officers of the major firms in a community meet regularly to determine how they can most effectively address the community's needs.***

A successful business-civic organization is usually supported by a small but high-caliber full-time professional staff that assists in narrowing and defining priorities, researching issues, planning for implementation, establishing and maintaining contacts with key community groups and leaders, and coordinating implementation of projects. **The civic involvement of top corporate executives should be supported by a small but high-caliber professional staff to implement decisions and to communicate with professional counterparts in government and other community organizations.** The community affairs and public policy staffs of the member corporations constitute another important staff resource.

It is critically important that the public believe that a business-civic organization's goals genuinely reflect the broader interests of the community. This is the test of the vision, knowledge of the community, and political sensitivity of the organization's leadership. For example, GBC publicly campaigned for the prohibition of racial discrimination in public accommodations despite the opposition of other business groups. **We recommend that CEOs consciously attempt to learn about and understand the goals, motivations, agendas, styles, and particular needs and problems of government, political, and other community leaders by taking the following steps:**

- **Inviting them to meet and talk**
- **Jointly participating in forums, projects, and organizations**

*See memorandum by CHARLES KELLER, JR., page 101.

GREATER BALTIMORE COMMITTEE

The Greater Baltimore Committee (GBC) was founded in 1955 as an elite group of the CEOs of the 100 largest corporations in the Baltimore metropolitan area. They were chosen because they could speak for their firms and make commitments to action without extensive negotiations. GBC would support individual civic improvement projects designated by a majority of the members.

No specific statement of philosophy was issued, but a pragmatic purpose was identified: to function as "a citizen arm of the government. . . . [It] could provide the necessary business and financial expertise to help implement city projects; it could provide accurate and complete information on their necessity through surveys and studies and help overcome opposition; finally, it would exert whatever possible pressure on the government to get approval for necessary improvements. . . . Our watchword should be action now. . . . We must not be content with postponing or leaving undone, by ourselves or by others, anything possible of accomplishment. We want sound planning, but we want action to implement the plans, and we want it now, not at some future time when we may not be around to see it."

In 1979, GBC underwent a major structural change as a result of its merger with the Metropolitan Chamber of Commerce. Formerly an elite group of top corporate executives, socially and professionally well known to each other, GBC now has several thousand members from small and medium-sized firms whose concerns and interests are often quite different from those traditionally espoused by GBC.

This change in structure presents a major challenge to GBC. Will it be able to evolve into an effective instrument for the mobilization of a broader spectrum of business support in civic affairs, or will it waiver in purpose and fade? There is, at present, no other organization in Baltimore capable of stepping into the role played by GBC in focusing private-sector action on public projects. If the transition cannot be made, the city will lose a major partner in the redevelopment process.

SOURCE: Based on Katharine C. Lyall, "A Bicycle Built for Two: Public-Private Partnership in Baltimore's Renaissance" (Paper prepared for the Committee for Economic Development, New York, 1980).

- **Nurturing a habit of discourse that recognizes and can cope with diverse and frequently conflicting styles of personal and group interaction**
- **Adapting their own goals and operations to take into account differences and changes among community groups**
- **Identifying a select number of priority objectives on which to focus their attention**
- **Building coalitions with diverse groups to support the accomplishments of those objectives**

BROAD-BASED CIVIC ORGANIZATIONS

Another type of building block is the civic organization whose members come from more than one segment of the community. The purpose of such a group is to provide a view of community issues that is as broad, objective, and farsighted as possible. The views of these groups naturally reflect the collective judgment of their members. By enlisting membership from a cross section of the community, they can bring breadth, balance, and experienced viewpoints to their deliberations. The expectation is that although members come from different groups, their purpose is not to represent or advocate the narrow interest of those groups, but to act as citizens concerned for the overall well-being of the community. This perspective is further encouraged in those instances in which membership is personal, rather than based on association with any other group or organization.

Some civic organizations limit representation to the leaders of two or more specific sectors of the community, such as business, labor, and academia. The Greater Milwaukee Committee, for example, is composed primarily of business leaders but has always included labor leaders (see box on page 20). Others, such as the Citizens League of St. Paul–Minneapolis (see box on pages 18-19) and CPHA in Baltimore (see box on page 22), are open to all willing to pay dues and abide by the tenets of the organization.

The most effective civic organizations employ highly qualified full-time professional staffs, although the voting members are active in deliberation, decisions, and implementation. The organizations have diverse sources of revenue, including personal memberships, organizational contributions, and foundation grants.

CITIZENS LEAGUE OF ST. PAUL–MINNEAPOLIS

Formed in 1952, the Citizens League is an independent, nonpartisan, nonprofit, educational corporation dedicated to understanding and helping to solve complex public problems of the Twin Cities metropolitan area.

Volunteer research committees of the Citizens League develop recommendations for solutions after months of intensive work.

Over the years, the league's research reports have been among the most helpful and reliable sources of information for government and civic leaders and others concerned with the problems of the area.

The league is supported by membership dues from individual members and membership contributions from businesses, foundations, and other organizations throughout the metropolitan area.

RESEARCH PROGRAM

- Four major studies are in progress regularly.
- Each committee works 2½ hours per week, normally for 6 to 10 months.
- Annually over 250 resource persons make presentations to an average of 25 members per session.
- A small full-time professional staff provides direct assistance to the committee.
- An average of more than 100 persons follow committee hearings with summary minutes prepared by staff.
- Full reports are distributed to 1,000 to 2,000 persons; 3,000 summaries are provided through the CL News.

CL NEWS

- A four-page newsletter published every other week and mailed to all members.
- Reports activities of the Citizens League, meetings, publications, studies in progress, pending appointments.
- Analysis, data, and general background information on public affairs issues in the Twin Cities metropolitan area.

PUBLIC AFFAIRS ACTION PROGRAM

- Members of league study committees have been called on frequently to pursue the work further with government or nongovernment agencies.
- The league routinely follows up on its reports to convey an understanding of current community problems and league solutions to the larger group of persons involved in public life.

COMMUNITY LEADERSHIP BREAKFASTS

- Held from September through May.
- Minneapolis breakfasts are held each Tuesday.
- St. Paul breakfasts are held every other Thursday.
- South Suburban breakfasts are held the last Friday of each month.
- An average of 35 persons attend each of the 64 breakfasts each year.
- The breakfast programs attract news coverage in the daily press, television, and radio.

QUESTION-AND-ANSWER LUNCHEONS

- Feature national or local authorities, who respond to questions from a panel on key public policy issues.
- Each year, several of these luncheons are held throughout the metropolitan area.

PUBLIC AFFAIRS DIRECTORY

- A directory is prepared following even-year general elections and distributed to the membership.

INFORMATION ASSISTANCE

- The league responds to many requests for information and provides speakers to community groups on topics studied.

SOURCE: Based on the information provided by the Citizens League of St. Paul-Minneapolis.

GREATER MILWAUKEE COMMITTEE

The idea of an organization to promote community projects on a continuing basis was discussed by a small group of ten or fifteen Rotarians about 1939. They felt that the development of the community was not keeping pace with that of other cities.

The group organized informally as the Greater Milwaukee Committee (GMC) and increased its membership to thirty-six people. All of them were young executives and professionals.

They agreed upon a year-long observance of the State Centennial in 1948. The 1948 Corporation which the group created and subsidized to carry out the project was a broad-based group of several hundred people from all walks of life and all areas of the community. The project was a tremendous success. Among other things, it pointed out the needs of the community and the importance of cooperation between government officials and the private sector.

Having served its basic purpose, the '48 Corporation was dissolved, but the members of GMC felt their work should continue. In December 1948, they incorporated as the Greater Milwaukee Committee for Community Development. The group has included from the beginning leaders in the fields of management and labor, finance and education, communications, commerce, and the professions. We have limited the number of active members deliberately—not to be exclusive, but rather to keep the group small so that we could work together with ease, informality, and flexibility.

Thus, GMC became a good vehicle for members to learn about the metropolitan area and to voluntarily undertake projects for its improvement. It became a medium through which members can express such civic interests as they themselves develop and which they themselves then carry out, with a minimum of staff help.

Let me repeat that, especially for the new members, because it has been the basis of our success: the *members* express their civic interests! The *members* develop them! The *members* carry them out with a minimum of staff help! In other words, the *members* do the work!

And I should add that our work, especially that with representatives of government, is done with a minimum of publicity. Unless it serves a needed purpose in furthering some project, publicity for GMC is avoided. The elected officials and their staffs have the primary responsibility for fostering community progress and deserve credit for its accomplishment and our personal talents and abilities have been available to them whenever they think we can be of help.

SOURCE: Excerpts from remarks of President John C. Geilfuss, GMC Annual Meeting, University Club, March 10, 1960.

The effectiveness of such organizations depends heavily on the public's belief that they support positions in the general public interest. Thus, the cross section of membership is important both as an indication of which perspectives have been represented and as a means of genuinely tapping a wide spectrum of knowledge, experience, and opinion. Effectiveness also depends on the influence of a group's members in other organizations, which is another reason why breadth of membership is a strength.

NETWORK FOR COMMUNICATION AND MEDIATION

Building-block organizations work most effectively when linked by a network that permits communication and the mediation of differences. The network may be simply a series of informal personal relationships among key leaders of influential groups. Intermediary organizations, such as universities, foundations, and clubs, can serve the same function. In some communities, a civic organization itself may serve as a network through which leaders from numerous organizations can become familiar with one another, have regular contact, and discuss issues of mutual concern. The Citizens League in the Twin Cities and CPHA in Baltimore are examples of such intermediary organizations.

To be effective in building consensus on important issues, such networks must include the most influential groups in the community. Opportunities are missed and problems multiply in communities where key interests are not accorded legitimacy by other influential groups or where organized groups are viewed as legitimate but are not linked to other influential groups through a regular communication network. In such cases, key groups that are likely to be adversaries either do not communicate at all or do so exclusively through the media or through the expressly political mechanisms of elections, public hearings, and direct lobbying of government.

Achieving consensus in pluralistic American communities is a challenge. There are more and more influential groups; desires and expectations have increased; and the range and complexity of public decisions have grown. At the same time, the traditional mechanisms for achieving consensus have proved inadequate.

The ultimate consensus-forming mechanism is the election of top government officials. Over the years, much attention has been given to devising effective electoral processes and government structures; and these, to be sure, are important. Nonetheless, the most effective electoral processes and government structures will prove inadequate if segments of the community are hopelessly at odds with one another or if elected officials are unable to forge a working consensus among themselves.

Political parties, too, traditionally have played a role in bringing together disparate groups, blending the interests of their members with the goals of the broader community and creating the necessary political support to win elections and implement policy. However, in many communities, political groups have been unwilling to reach compromises on their disparate interests. The waning importance of parties in winning elections to highly visible offices (largely a result of campaigning via the media) and the declining ability of parties to use the machinery of government to reward

CITIZENS PLANNING AND HOUSING ASSOCIATION

In Baltimore, many of the leaders responsible for successful joint ventures, from the early days of the Charles Center program to the present, can trace their interest and first knowledge of urban problems back to membership in a single common nonprofit organization, the Citizens Planning and Housing Association (CPHA).

The Citizens Housing Council, established in 1937, was charged with pressing for stricter housing code enforcement. When it became apparent that Baltimore's housing and neighborhood problems required a broader planning approach, the council merged with a wider group of architects, lawyers, professors, and professional social workers to form CPHA in 1941.

Among CPHA alumni in the public sector in positions directly or indirectly concerned with urban revitalization programs are Mayor (and former Councilman) William Donald Schaefer; Robert Embry, the original commissioner of housing and community development in Baltimore, then assistant secretary for community planning and development in the Department of Housing and Urban Development; Walter Orlinsky, president of the Baltimore City Council; and Paul S. Sarbanes, U.S. senator from Maryland.

CPHA alumni in the private business community include James Rouse, president of Howard Development Corporation and developer of Columbia, Maryland, the Quincy Market in Boston, and Harborplace in Baltimore; William Boucher III, executive director of GBC; Walter Sondheim, chairman of the Charles Center–Inner Harbor Management Corporation; Martin Millspaugh, president and chief executive of the Charles Center–Inner Harbor Management Corporation; and Hope Quackenbush, director of the Morris Mechanic Theatre Corporation.

In 1981, CPHA had about 1,800 individual members, 200 business memberships, and 150 neighborhood affiliates.

SOURCE: Based on Katharine C. Lyall, "A Bicycle Built for Two: Public-Private Partnership in Baltimore's Renaissance" (Paper prepared for the Committee for Economic Development, New York, 1980).

loyal members and punish disloyal members have also contributed to the weakening of local party organizations. It is therefore all the more important to have a network that facilitates discussion among key leaders and encourages the mediation of differences among groups with conflicting interests.

ROLE OF THE MEDIA

The declining importance of traditional consensus-building mechanisms is related in part to the rising influence of the press, radio, and television. It is through these media that politicians and political groups increasingly compete for attention, attempt to influence opinion, and try to persuade voters. Citizens who have little connection with the sources of community power depend heavily on what they read in newspapers, see on television, or hear on radio for information as well as for interpretation of what the words and images mean.

Such heavy reliance on the media as a communicating and mediating mechanism is a matter of concern because their potential for these purposes is seriously underdeveloped and frequently misused. Responsibility for this situation is attributable to many causes, including the system of news communication (markets, competitive pressures, economics, technology), the users of news, and those who make the news. One simple step that could be taken toward enlisting the media in an effort to improve communication is to bring them into the planning and organization of civic projects at an early stage. Although newspapers, magazines, and television and radio stations may attempt to be disinterested observers and chroniclers of community affairs, their organizational success, like that of other businesses, is nonetheless affected by the overall health of the community. To that extent, they have an interest in strengthening the civic foundations required for partnership and in advancing important partnership efforts. By bringing reporters and editors into the process early, community leaders not only can increase the likelihood of accurate reporting and analysis but also can enlist the support of media organizations as corporate citizens with a stake in the community.

LEADERSHIP

Do effective leaders produce successful communities or do successful communities give rise to effective leaders? No doubt from time to time exceptional leaders arise who can energize and provide direction to an unusually lethargic or warring community. Some communities, however, seem to be more inclined to encourage leadership that can, in turn, assist in further improving the community.

One of the ironies of contemporary American politics is that the public's complaint about its sense of powerlessness to compel effective leader-

ship is due to the fact that individuals and diverse groups have more political power than ever before. Power is so widely dispersed that it is difficult to achieve a sufficient concentration of it for effective action. In such circumstances, it is futile to expect any but the most exceptional leader to compensate for the absence of civic motivation. The most important determinant of community leadership is the willingness of influential groups to give up some measure of their own power to those who would lead in the interest of the community.

Effective leadership also requires a structure for the training of leaders and mechanisms through which leaders can formulate ideas, gather support, negotiate differences, and implement, or encourage the implementation of, policy. Leaders who arise from building-block organizations and spend time working through broader policy organizations learn the makeup of the community, develop key personal contacts, and build the trust that comes from such contacts. By contrast, leaders who arise principally by way of the media or through the politics of divisiveness are far less likely to possess those attributes.

Some communities have organizations that serve as incubators in which potential leaders from each of the major sectors of the community can come together to discuss community problems. When the group works well, these rising leaders grow to understand each other's hopes and concerns and develop a mutual respect and trust that can greatly facilitate subsequent cooperative efforts at urban development. The broadly based civic organizations can serve this purpose. In addition, there are other organizations, such as Leadership Atlanta and the recently organized Leadership Cleveland, that are more specifically designed to identify and bring together rising leaders from different segments of the community.*

CIVIC ENTREPRENEURS

The special kind of leadership called for in contemporary urban communities requires an entrepreneurial quality. An *entrepreneur* is someone with a vision of what can be achieved and the skill, energy, and determination to accomplish it. A *civic entrepreneur* is someone who applies that gift in the interest of his or her community. Such a person might be found in the public or the private sector and at various levels of community action. Typically, the civic entrepreneur envisions an opportunity where others see problems, has a sense of how to get from here to there, and is committed to working until that opportunity is fulfilled.

There are numerous examples of individuals across the country who can be classified as civic entrepreneurs. The four we cite here demonstrate

*See memorandum by CHARLES KELLER, JR., page 102.

that such leaders can be found in a variety of fields and geographical locations.

- *James Rouse* is the developer of Harborplace in Baltimore, Quincy Market in Boston, the new town of Columbia, Maryland, and numerous other developments. Mr. Rouse has deep roots in Baltimore and was a member of CPHA, which persuaded key business leaders to establish GBC. In turn, GBC was instrumental in providing private-sector support for the revitalization of downtown Baltimore.

- *Sister Falaka Fattah*, the mother of a teen-age gang member in Philadelphia, decided it was time to bring an end to the killing of more than forty young men a year in needless street fighting. She and her husband, David, established the House of Umoja, inviting gang members to live with them, negotiating treaties among the warring gangs, and helping the youths to find steady jobs.

- *Mayor Tom Bradley*. Los Angeles was the scene of some of the most violent riots of the 1960s. Today, that city enjoys a recent history of unusually harmonious relations for a highly mixed population of black, Hispanic, Oriental, white, and numerous other groups. A significant part of the credit goes to Mayor Tom Bradley, who has worked consistently to reach out and build trust among the various segments of the community, including business, as an essential base for addressing the city's problems.

- *Ted Kolderie*. For twelve years as executive director of the Citizens League of St. Paul–Minneapolis, Ted Kolderie was professionally engaged in identifying issues of importance to the Twin Cities, encouraging active citizen involvement in developing practical approaches to addressing those issues, and building the civic coalitions required for action. He built upon the tradition of effective civic organization exemplified by the league in contributing to the Twin Cities' national reputation for innovation in public affairs.

We urge community leaders in both the public and the private sectors to encourage and nurture individuals in any field who exhibit the qualities of the civic entrepreneur and to instill in their own organizations a spirit of civic entrepreneurship.

CONTINUITY IN POLICY

Contemporary economic conditions are uncertain. Local government policy can help counter that uncertainty through its own predictability. Continuity in policy does not preclude change and, in fact, may require it as circumstances change. What it does preclude, assuming the policy was appropriate in the first place, is sudden changes in policy that are unrelated to the changing circumstances faced by the community.

Continuity does not require the same people in leadership positions, but it does require that new leaders continue past policy or adjust it in ways that take account of the impact on past decisions and agreements.

CHAPTER THREE

PARTNERSHIP TO DEVELOP THE LOCAL ECONOMY

A healthy local economy provides the employment and income that permit residents to be self-sufficient, contributing members of a community. Moreover, the capacity of cities to become more self-reliant in providing for essential community needs—vital neighborhoods, decent housing, and adequate public services—will be determined by the strength of their local economies. A healthy economic base generates private profits and public revenues to support public and private efforts to protect and enhance the quality of life.

Furthermore, the importance of local economies extends beyond the welfare of cities. The economic health of cities is a vital factor in determining the nation's economic health.

DIMENSIONS OF DEVELOPMENT NEEDS

Commerce and industry, housing, and community services in both the central city and the suburbs are components of a single, highly interdependent metropolitan economy. The health of the metropolitan economy depends on the vitality of each of its components.

In *An Approach to Federal Urban Policy* (1977), CED pointed to the diversity of local areas, cautioning that there is no single urban problem and, moreover, that there is no single or simple solution to the nation's urban problems. Nevertheless, one broad trend in the national economy affects the economies and development strategies of all urban areas: the rel-

ative decline of manufacturing and the growth of the trade and service sectors.

Manufacturing employment in the nation's metropolitan areas declined by 6.4 percent between 1968 and 1977. Employment in wholesale and retail trade increased by 20.6 and 13.3 percent, respectively. The most rapidly growing sectors in metropolitan areas were finance (27.3 percent) and services (32.8 percent), particularly business services (50.6 percent); health, education, and legal services (49.2 percent); and tourism and recreational and cultural services (44.4 percent).

All urban areas, whether growing, stable, or contracting, confront problems of economic development. The dimensions of these problems vary among urban areas and major regions of the nation.

Many parts of the country are losing businesses and jobs through business closings and relocations, and most metropolitan areas continue to experience growing disparities between distressed inner cities and more prosperous suburbs. The drain of business from central cities has resulted in high levels of unemployment, growing numbers of low-income residents, and deteriorating infrastructure. Skilled and middle-class workers are more likely to follow moving businesses and can more easily relocate to places where employment opportunities are better. In far too many urban areas, it is the unskilled and the hard-to-employ who remain.

Development strategies focus on industrial, commercial, and community objectives, and large-scale development projects frequently encompass all three. Industrial development activities are aimed at strengthening the industry and employment base of metropolitan areas through such means as encouraging the productive use of vacant industrial land and buildings adjacent to downtown business districts. Commercial development focuses on revitalizing central business districts and neighborhood commercial functions. Community development efforts are directed at improving urban amenities and the quality of residential neighborhoods.

Although economic development creates jobs, it does not necessarily assure that those jobs will be made available to people who need them. CED, in its 1978 statement *Jobs for the Hard-to-Employ: New Directions for a Public-Private Partnership*, examined in detail the possibilities for public-private efforts to improve training and employability. Metropolitan areas must address the issue of providing employment opportunities for the unskilled, minorities, the young, the aged, and the handicapped. There is a critical need to improve coordination between local economic development strategies and local programs of job training in order to more effectively match occupational skills with job requirements.

PUBLIC INITIATIVES IN STRENGTHENING LOCAL ECONOMIES

Local governments often use public authorities and other public resources to create incentives for new businesses and business expansion. The most commonly used approaches are promotion, infrastructure and land assemblage, and incentives.

PROMOTION

The most conventional local government approach to economic development is promoting the image of a city as a desirable environment for operating a business and a desirable community in which to live, work, and rear children. These promotional activities most often advertise the available economic, environmental, cultural, recreational, and service amenities. A notable example of a promotional approach is the "I Love New York" campaign, which has resulted in significantly increased tourism in New York City.

INFRASTRUCTURE AND LAND ASSEMBLAGE

The physical condition of the city and the availability, quality, and price of resources are important considerations for a firm in deciding where to locate and whether to expand or reduce the scope of its operations. To stimulate development, local governments attempt to upgrade and extend public infrastructure (roads and transportation, water, sewage and power facilities, and other public services such as fire and police protection) and to enhance the general quality of the physical environment. Governments use powers of public ownership, condemnation, and eminent domain to assemble parcels of land that can be sold or leased to private businesses, sometimes at a reduced price. Many cities have used these tools, particularly in areas in which the private sector has been reluctant to invest because of high costs, risks, and unavailability of necessary land.

INCENTIVES

Government's taxing, regulatory, and financial powers can be used as incentives to change the market environment in which private business operates.*

Federal, state, and local governments can minimize red tape and paper-work requirements that discourage and slow private-sector initiatives. Many cities provide for an ombudsman or one-stop service for firms operating or considering operating within their localities.

Federal, state, and local governments increasingly use their own financial and tax resources and tax instruments to induce private-sector investment in economic development projects. Local governments and agencies have the ability to make or guarantee loans, subsidize interest payments,

*See memorandum by FRAZAR B. WILDE, page 102.

issue tax-exempt revenue bonds, and in some cases, make direct equity investments. They also have the authority to provide tax moratoriums and partial reductions in tax liabilities. Tax abatements or expenditures are frequently used in the attempt to induce firms to locate in relatively high-cost areas.

As early as 1971, in its policy statement *Social Responsibilities of Business Corporations*, this Committee recognized that

> the evidence clearly indicates that many of the goals of American society can best be realized by developing a system of incentives for private firms to do those social jobs which business can perform better and more economically than other institutions. Indeed, the entrepreneurial thrust of business . . . may well be indispensable in achieving a permanent solution to urban and other socioeconomic problems that have badly overtaxed the capacity of public agencies.

Although we continue to advocate the use of public incentives to stimulate private investment in public objectives, we question the real value of local tax incentives. There is little evidence that they significantly affect the relocation and expansion decisions of firms, and they decrease tax revenues needed to provide the public services and infrastructure essential for urban development. We recommend that local governments minimize the use of tax abatements. Where such relief is used as a component of a broad package of incentives, it should be carefully targeted to specific objectives and administered in a manner that avoids short-term windfalls to firms.

ENTERPRISE ZONES. A new approach to the development of distressed rural and urban localities, the creation of *enterprise zones*, is currently being considered by the federal government and by many state and local governments. To date, nine states have passed enabling legislation. The concept is simple: Residents, property owners, and businesses sited in designated distressed areas become eligible for special tax incentives and the waiving of certain regulations designed to offset the noncompetitive costs and risks of the zones. Local governments, in addition, would make special efforts to improve the quality of public infrastructure and services in these areas.

The claim of this approach is that it suggests greater development benefits can be achieved with less direct government involvement in designated geographic areas. But the real costs of enterprise zones are unknown, and the approach is built on tax abatements, about which we have reservations. The concept is in its infancy, and governments should proceed with caution. Much remains to be learned about both the value to firms of different forms of financial incentives and their costs to governments. Therefore,

enterprise-zone experiments should be implemented on a limited basis and the results carefully evaluated before proceeding to wider efforts.

THE IMPORTANCE OF BUSINESS CLIMATE

The psychological climate in which businesses operate is important in private-sector decision making and in the commitment of business leadership to the welfare of urban communities. Unfortunately, recent surveys have established that business leaders perceive local governments in many cities as inefficient or indifferent to business interests. One survey concluded that "whether the particular source of dissatisfaction is regulation, taxation, poor services, quality, or lack of response to specific problems, a large majority of city business leaders have acquired negative opinions about their local government."[1]

Local governments should not only work to improve their image in the eyes of the business community but also more systematically evaluate how their actions affect the real conditions faced by business. Improving the local business climate involves extensive efforts by local government to communicate with the private sector, to be responsive to its problems, and where possible, to minimize the impact of paper-work requirements and regulation on its activities.

PRIVATE INITIATIVES IN STRENGTHENING LOCAL ECONOMIES

A broad array of opportunities exists for private-sector participation in urban economic development. Many of these actions can be taken without direct public-sector involvement, but it is rare that important private-sector development projects are undertaken without cooperation of local governments.

The primary contribution of the private sector to urban economic development is the success, continuity, and expansion of for-profit enterprises, which provide the vital base of jobs, incomes, and tax revenues. Private profitability is essential to sustaining the vitality of the economic base and providing the public and private means for working toward wider social objectives.

From a community's point of view, the most critical decision that businesses make is to remain in the community and commit time, effort, and resources to its future. Where companies are particularly committed to a location, whether by tradition or for economic reasons, they have a special

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[1] *Business/Government Cooperation for Urban Economic Development* (unpublished survey), U.S. Department of Housing and Urban Development, 1981. The study also found that the more economically distressed the city, the more likely business executives are to comment negatively on the quality of important city services.

interest in alleviating any adverse economic conditions that affect their profitability.

The private sector takes economic development initiatives that extend beyond the normal transactions of firms. The rationale is that the firm will receive a longer-term economic benefit which may not be attributable to specific expenditures or investments. Among these initiatives are development assessment and planning, promotion of community image, favorable hiring practices, technical assistance to firms, investment-targeting and site-location practices, and economic development projects.

DEVELOPMENT ASSESSMENT AND PLANNING

The formulation of multifaceted urban development projects must be based on assessment of local needs and on carefully conceived plans. In some cities, corporations, business organizations, or foundations have commissioned such efforts.

- In 1975, Bethlehem Steel Corporation commissioned a review of the city of Bethlehem's land-use and development problems and opportunities and an evaluation of the concept, plans, and programs for renewal and revitalization of the downtown business district.

- The Chicago Central Area Committee (composed of the chief executive officers of major Chicago corporations) contracted with the architectural firm of Skidmore, Owings & Merrill to prepare the Chicago 21 plan for the development of the central-communities area. The plan provided the basis for the Dearborn Park housing development south of the Loop, which was undertaken by a limited dividend corporation comprised of Chicago's leading business firms.

- In Minneapolis, the Downtown Council, representing all aspects of the downtown business community, retained Barton Aschman Associates to make a detailed examination of existing conditions on Nicollet Avenue, the heart of the city's retail district, and to set objectives and report on alternative measures for its improvement. The eventual result of this survey was the widely acclaimed Nicollet Mall.

- In St. Paul, the McKnight Foundation committed $10 million to a program-related investment to stimulate the development and rehabilitation of the Lowertown area, which sits on the periphery of the downtown district. A nonprofit entity, the Lowertown Redevelopment Corporation (LRC), was created to implement a redevelopment plan. LRC is a partnership between the McKnight Foundation, the city of St. Paul,

and the private business community. Net economic gains have already resulted from this innovative foundation initiative.

Providing comprehensive evaluations of development needs and overall economic development plans is an appropriate and vital role for the corporate community.

PROMOTION OF COMMUNITY IMAGE

A traditional private-sector role is the promotion of a positive image of the community as a place of industry, trade, and commerce. Often carried out by Chambers of Commerce and similar business organizations, the purpose of these activities is most frequently to attract new firms and stimulate tourism.

- An innovative example of promoting a city's image was New York's Ambassador Program, which operated from 1976 to 1978. The program was conceived by Bankers Trust Company during the height of the city's fiscal crisis. Its goal was to turn New York's traveling executives into goodwill ambassadors for the city.
- In the 1960s, the Atlanta Chamber of Commerce launched the "Forward Atlanta" campaign, a program designed to attract business interest from across the nation. Financed by local merchants, this advertising effort has been credited with helping to make Atlanta a regional center in the South.

HIRING PRACTICES

The internal hiring practices of corporations can benefit local economies. Especially important are employment and training practices that help to provide jobs for the hard-to-employ.

- Since the late 1950s, the Continental Illinois Bank of Chicago has run a work-study program under which high school students attend school part-time and work part-time for the bank, receiving training for entry-level positions. A high percentage of the more than 200 students participating in this cooperative education program are from minority or disadvantaged groups. In recent years, eight out of ten participants have subsequently been hired by the bank to fill permanent positions. This arrangement has helped students to gain an understanding of the world of work before leaving school and simultaneously has benefited the bank by allowing it to take a close look at the students before they are hired on a full-time basis. The bank has found that work-study employees tend to have better attendance records, retention rates, and overall performance than regular hires. Continental Illinois is also

engaged in a variety of other efforts to aid hard-to-employ groups, including an outreach program to recruit Hispanic employees and a special program that creates part-time job opportunities for employees over 65.[2]

TECHNICAL ASSISTANCE TO FIRMS

Well-established, successful companies can assist struggling small firms and new entrepreneurs by providing business expertise and management skills. In some cities, Chambers of Commerce or similar business organizations provide small businesses with training and counseling services through their members. In some programs, companies in effect adopt new small businesses, attempting to nurture them through their infancy.

- A unique example of technical assistance to small business is the Business and Technology Center established by Control Data Corporation in St. Paul. The center serves as an incubator for small technology-based businesses, offering reasonably priced space and a variety of services, including financial counseling and management advice.

INVESTMENT AND SITE SELECTION

Corporate investment and site-location decisions have major impacts on urban economies. These decisions are based primarily on profit considerations, but they can provide long-term benefits that contribute to community economic goals. Companies undertake for-profit investments independently or in conjunction with other firms to achieve specific development objectives. For example:

- The City Venture Corporation was organized by thirteen companies in Minneapolis–St. Paul as a for-profit planning and development service for smaller businesses.
- Selby Bindery, established by Control Data Corporation, is a firm that, with the aid of public subsidies, meets a specific market need, providing flexible-time employment for inner-city residents while meeting the market test of profitability.
- Digital Equipment Corporation located a plant in Boston's Crosstown Industrial Park, the city's first inner-city industrial park. Over 200 jobs were created, most of which were held by residents of the immediate area, including the nearby Orchard Park Housing Project.

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[2]/ See *Training and Jobs Programs in Action: Case Studies in Private-Sector Initiatives* (New York: Committee for Economic Development and Work in America Institute, 1978), pp. 80–81, 153–155, and 174–175.

ECONOMIC DEVELOPMENT PROJECTS

Major development efforts designed to renew a city's economic base and revitalize downtown commercial areas can be undertaken through predominantly private efforts. Such large-scale projects require consortia of corporations to provide investment funds and pool the attendant risks. But although these projects are largely private, their success depends upon facilitating actions and support of local governments.

- Detroit's Renaissance Center was designed to serve as the catalyst for the revitalization of Detroit. Beginning in 1971, thirty-three acres of decaying industrial and commercial land along the Detroit River were redeveloped into a major complex that includes hotel space, office space, and retail and service facilities. Ford Motor Land Development Corporation, the real estate subsidiary of Ford Motor Company, assembled the riverfront land and formulated the development program. The project was implemented through the Renaissance Center partnership, a limited partnership consisting of Detroit Downtown Development Corporation, a subsidiary of the Ford Motor Land Development Corporation, and fifty corporate partners. Financing was provided through a consortium of twenty-eight banks and four life insurance companies. The development of Renaissance Center was strongly supported by the city of Detroit, which cooperated through such activities as vacating streets and giving zoning approvals.

- The public and private sectors in Toledo, Ohio, joined to make a major commitment to revitalizing the central business district. The project, SeaGate/Promenade Park, came about because Owens-Illinois agreed to purchase and develop land from the city. The company constructed a $100-million headquarters building and matched a $12-million Urban Development Action Grant. SeaGate is also the site for the new headquarters of Toledo Trust Company. Promenade Park is a riverfront development that parallels SeaGate and represents the public-sector commitment.

PUBLIC-PRIVATE COLLABORATION

Both the public and the private sectors contribute to the development of their local economies, but there are limits to independent responses to complex urban economic development problems.* A recent survey of the top executives of 564 firms found that nearly all agreed that the develop-

*See memorandum by WILLIAM C. GREENOUGH, page 102.

ment of their cities requires joint efforts[3] by business leaders and local governments.[4]

The linchpins of public-private economic partnership are negotiation and cooperation. Collaborative approaches evolve through several discernible stages: goal setting, project formulation, establishment of resource commitments and responsibilities, and implementation. In some cases, cooperation extends only through the establishment of resource commitments and responsibilities, with implementation proceeding through coordinated but independent actions. In other cases, implementation is undertaken jointly.

Partnerships are voluntary associations for the mutual benefits of public and private participants. Collaboration does not require that any participants go against their essential interests; rather, cooperation permits each sector to achieve their shared goals more efficiently and effectively.

Risks and liabilities must be shared among public and private participants, just as benefits are. Partnerships, almost by definition, require equitable commitment of capacity and investment. Public and private investments are necessary to underwrite many development projects and are a means of pooling risks and limiting the liability of individual participants.

Dallas' Reunion project (see box on page 37) and St. Paul's Town Square project (see box on pages 38–39) provide examples of shared commitments and benefits in public-private partnership.

INCENTIVES FOR COLLABORATION

Business seeks to operate in a stable, predictable investment environment. Lack of continuity in local government leadership and unpredictability of government policies and action create a climate of uncertainty. An important attribute of public-private partnerships is that they provide a means for reducing uncertainty through negotiations and contractual arrangements.

Collaborative approaches can achieve greater efficiency in the use of public and private resources. For example, private investment can be coordinated with the construction of public infrastructure.

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[3] The National Council for Urban Economic Development defines the collaborative process as follows: "Collaboration on a joint public/private development project involves the timely sharing of resources and expertise and the coordination of activities. In essence, it is a negotiated business deal in which trade-offs are made, and risks, benefits, and profits are shared.

"It is a multi-faceted process structured to fill gaps in the local business climate, such as unavailability of capital, problems with land assemblage, high taxes, and potential weak demand for the project. The process is also designed to reconcile the city's government's activities with the private investor's needs for timely action and a long-term stable commitment. . . ." *Coordinated Urban Development* (Washington, D.C.: National Council for Urban Economic Development, March 1978), pp. 165–169.

[4] *Business/Government Cooperation for Urban Economic Development* (unpublished survey), U.S. Department of Housing and Urban Development, 1981.

REUNION: Dallas		
PROJECT:	50-acre downtown development; includes a Hyatt Regency Hotel, 50-story tower, restored Union Terminal Building, parks and pedestrian walkways, municipal sports arena, road network, and public parking	
ORIGINATED:	1973	
PARTICIPANTS:	Public:	City of Dallas
	Private:	Woodbine Development Corporation
SECTOR RESPONSIBILITY:	Public:	Municipal sports arena, Union Terminal renovation, road network and parking, some utilities, 33 acres of land
	Private:	Hotel, theme tower, some roads, some utilities, 20 acres of land
COST (PHASE 1):	Public:	$25 million (arena) $10 million (roads and parking) $350,000 (public park)
	Private:	$75 million (theme tower, hotel, roads and utilities)
FUNDING MECHANISM:	Public:	Revenue bonds and sports arena seat options
	Private:	Equitable Life and First National Bank of Dallas
OPENING:	Hotel and tower: Summer 1978 Sports arena: Spring 1980	
BENEFITS:	Construction jobs:	425 people employed, $20-million payroll
	Hotel jobs:	800 people employed, $3.5-million payroll
	Increased tax base:	2,700%
	Hotel occupancy tax:	$200,000 annually
	Increased utilization of nearby public facilities, collateral development, increased convention business	

SOURCE: Based on William Claggett, "Dallas: A Case Study of the Dynamics of Public-Private Cooperation" (Paper prepared for the Committee for Economic Development, New York, 1981).

TOWN SQUARE: St. Paul		
PROJECT:	2 office towers, a major retail complex, with a new department store, over 40 specialty shops, and a luxury hotel	
ORIGINATED:	Late 1960s City of St. Paul originally planned a block in a larger set of city blocks as a link between retailing and financial functions within the city. Proposals for this block were not accepted until a banking executive brought the city and a Canadian developer together in 1975.	
PARTICIPANTS:	Public:	City of St. Paul
	Private:	Oxford Properties, Inc.
SECTOR RESPONSIBILITY:	Public:	Prepared design and development controls; built indoor park, public walkways, and skyways; vacated a major downtown street; granted building permits; negotiated with tenants to assure them of the city's commitment
	Private:	Provided financial commitments, built nonpublic structure of the square, obtained necessary tenant commitments
BASIC OBJECTIVES:	Public:	Secure needed rental, office, and retail commitments, produce a dramatic product that would influence overall image of downtown area; revitalize retail center of downtown, remedy inadequate hotel
	Private:	Dramatic amenities to lure customers back from suburbs, linkages with other projects already in the area to facilitate movement among projects
KEY DECISIONS:	The city's and community's willingness to enter into a development agreement with the private developer after a long period of inactivity in an area of the city known as the "superhole." The city's commitment to public projects to encourage private rental, office, and department store commitments to the area.	

COST:	Public:	$360,000 federal grant to build hotel's solar panels
		$1.6 million from the city of St. Paul for pedestrian and traffic improvements
		$9 million from the city for indoor park and public concourses
		$4.8 million of UDAG funds targeted to these public costs
	Private:	$5.5 million cost of the underground ramp was purchased by Oxford upon completion.
		Oxford invested $55 million plus tenant improvements, cost of department store and other retail and office space.
		The hotel cost approximately $15 million of which $8.5 million was in a mortgage package prepared by St. Paul financial institutions.
FUNDING MECHANISM:	Public:	Industrial revenue bonds sold by the St. Paul Port Authority to initiate construction of an underground parking ramp; grants from the federal government
	Private:	Mortgage monies from private institutions, other investments by the private developer
OPENING:	August 1980	
BENEFITS:	Generate new taxes and employment for the city of St. Paul	
	Stimulate retail trade	
	Spillover effects on development decisions of adjacent areas	
	Instill civic pride in residents and business leaders	

SOURCE: Based on John Brandl and Ronnie Brooks, "Public-Private Cooperation for Urban Revitalization: The Minneapolis and St. Paul Experience" (Paper prepared for the Committee for Economic Development, New York, 1981).

Collaboration may be essential to the revitalization of downtown commercial centers. Small, uncoordinated, and fragmented investments are rarely sufficient to reverse the cumulative effects of economic decline. Acting independently, neither the public nor the private sector has the financial resources or the expertise and authority to meet the needs for redevelopment of central business districts. But together, they can provide infrastructure, recreational and cultural facilities, services, and general public amenities linked to private investment in office space, retail activities, and hotel and residential facilities.

Development itself may provide the incentive for additional development. Since the development of Renaissance Center, for example, over ten new restaurants have opened in the vicinity. All are renovations of deteriorated older buildings. Businesses that had planned to move out or otherwise had not planned to locate in Detroit have added 4,146 jobs with a payroll of over $62 million. The first major residential construction in thirty years is being planned; it will include 4,000 to 5,000 units.[5]

PARTNERSHIPS AS FINANCING INNOVATIONS

Local governments and development organizations are becoming increasingly sophisticated in tailoring financial packages to meet the needs of individual development projects and private investors.

- The Stouffer Hotel complex in downtown Dayton, Ohio, is an example. Assembled by the Dayton City-wide Development Corporation (DCWDC), this package included secured debt from financial lending institutions, county revenue bonds, federal Model Cities and Community Development Block Grants, twenty-year property tax exemptions, seed equity from DCWDC, equity financing through a quasi-public general partner raised through sale of partnership units, subordinated leases with purchase options to Stouffer's Dayton Plaza, and direct investment by the Stouffer affiliate.

In addition to the types of incentives in the Stouffer project, the public sector can provide land-cost write-downs, loan guarantees, interest subsidies, loans, airtight leases, and public improvements. Industrial revenue bonds have become an important technique in local economic development, but they are vastly overutilized. Between 1975 and 1980, the rate of industrial revenue bonds is estimated to have increased from $1.3 billion to a record $8 billion.[6] Congress is justifiably considering limiting the issuance of tax-free industrial bonds because in certain instances they have been mis-

[5] Information provided to CED by John Sagan, Vice President/Treasurer, Ford Motor Company.

[6] *Small Issue Industrial Revenue Bonds* (Washington, D.C.: Congressional Budget Office, April 1981).

RENAISSANCE II: Pittsburgh

Project	Basic Objectives	Initiated by	Major Participants and Their Responsibilities	Partnerships	Management Structure	Period of Implementation
Grant Street Plaza	Construction of 53-story office complex, with shopping, restaurant, and leisure activity; Midtown Station, main subway terminal of LRV in central business district	U.S. Steel Corporation City	U.S. Steel: to construct the office complex PAT*: to construct Midtown Station City: to redesign and reconstruct streets URA**: to help restructure land parcels between public and private sectors	U.S. Steel PAT City URA	4-party agreement between partners pertaining to land, streets, subsurface rights, and air rights	1981–1984
PPG Place	Construction of 40-story office complex with 6 structures, including shops, restaurants, open plaza, and winter garden	PPG Industries, Inc.	PPG: to construct the office complex URA: to assemble land under its powers of eminent domain City: to set climate, maintain support, and assure land assemblage	PPG URA City	URA	1981–1983
Vista International	Construction of 20-story hotel and 36-story office complex	City URA	City and URA: to purchase land, initiate market study, and develop market strategy to obtain bids and select developer Vista International: to construct the hotel-office complex	City URA Vista International	URA	In process, projected to start 1982

*Port Authority Transit **Urban Redevelopment Authority

SOURCE: Based on Shelby Stewman and Joel A. Tarr, "Private-Public Partnerships in Pittsburgh" (Paper prepared for the Committee for Economic Development, New York, 1981).

used and have caused federal revenue losses. However, restrictions on such bonds should not preclude their use for critical public purposes, such as energy production from municipal waste, which may best be undertaken by a private firm.

Federal sources of funds for public improvements in development projects include the Economic Development Administration's Public Works Program, the Department of Housing and Urban Development's Community Development Block Grants and Urban Development Action Grants (UDAGs), and the Urban Mass Transit Administration.

The importance of federal resources in many urban development projects is readily apparent in Baltimore's Inner Harbor development, which is frequently cited as a model of public-private partnership.

- Inner Harbor is a large commercial redevelopment project designed to change the overall climate for living and working in downtown Baltimore. Among the facilities in this ambitious project are the World Trade Center, new office space and residential units, a marina, an aquarium, a theater, a college campus, and parkland. The estimated investment for Inner Harbor over a twenty-year period is $260 million. Of this total, the federal contribution is $180 million, primarily through UDAGs and the Economic Development Administration.

The importance of the federal role in urban redevelopment was suggested in an evaluation of the private Renaissance Center revitalization project in Detroit.

> "The lesson to be learned from such a major urban development program as Renaissance Center is that the launching period in terms of financial success is lengthy. Renaissance Center was developed quickly in response to a pressing community need. The private sector was able to make it happen in the least amount of time because the private sector was determined not to be delayed by having to obtain governmental approvals of financial subsidies.
>
> It is clear, however, that such governmental subsidies are required for the financial success of such a program. In the future, it would appear that there need to be federal assistance programs such as the Urban Development Action Grant . . . program (requiring a minimum of governmental approvals and 'red tape') to provide the financial incentive for the private sector to undertake major urban redevelopment projects. In retrospect, if the UDAG program had been in existence when the Renaissance Center program began, a UDAG perhaps would have permitted the project to be financially

viable without hindering the developer in responding quickly to the community's need for such a project to be built." [7]

Although locally issued industrial revenue bonds and federal urban development funds are essential components in the financing of many public-private partnerships for uban revitalization, the use of such incentives has sometimes been extended too far. Local governments now face the prospect of more limited access to federal funds and constraints on industrial revenue bond issues. Reductions in funds from these sources will have to be compensated for through more effective targeting. Without access to capital, the ability of local governments to negotiate with the private sector in addressing large-scale urban development problems will be impaired.

PUBLIC AND PRIVATE DEVELOPMENT ORGANIZATIONS

Efforts to bring representatives of the public and private sectors together in joint development projects often are facilitated by formal development organizations. These organizations can be either quasi-public corporations that exercise public powers and authority to use special financial tools provided through federal, state, and local governments or independent, usually nonprofit corporations serving public purposes with boards made up of public- and private-sector representatives.

The advantages of private development corporations derive primarily from their relative independence from local governments (see box on page 44). Some degree of public accountability is maintained through public representation on boards and public operating grants and contracts. The advantages of quasi-public corporations derive primarily from special authorized powers such as eminent domain, sale of tax-exempt revenue bonds, and special assessment levies and fees. Because such institutions possess substantial authority to act relatively independently of direct government supervision, it is critical that their authority and scope of action be strictly limited to publicly acceptable development objectives. Such institutions are not likely to function effectively in a community that lacks consensus on goals or substantial public confidence in the appointing authority.

COLLABORATIVE APPROACHES FOR EMPLOYMENT AND TRAINING

Job training and employability development should be closely coordinated with other economic development initiatives.[8] Systematic efforts to

[7] Information provided to CED by John Sagan, Vice President/Treasurer, Ford Motor Company.

[8] These and other approaches are detailed in *Jobs for the Hard-to-Employ: New Directions for a Public-Private Partnership* (New York: Committee for Economic Development, 1978).

ADVANTAGES OF PRIVATE DEVELOPMENT CORPORATIONS

- Structural independence from local governments. Institutions which are privately organized, but serve a public interest can use resources and powers without certain limitations imposed on local government agencies, such as lengthy reviews, red tape, and travel and entertainment restrictions.
- Expansion of public powers. Private institutions are not constrained by city charter and, in most cases, are able to perform functions which are in the public interest, but not allowable "public activities" for a municipal corporation. These include real estate acquisition and development and ability to make loans and equity investments.
- Insulation of risk. The corporations shield both sectors from liabilities and risks which may have to be incurred in order to stimulate a city's economic development.
- Privacy of negotiations. Negotiations for the sale or lease of public property can occur without constant public scrutiny or bidding procedures.
- Coordination of public and private resources. The corporations package public and private resources—both capital and expertise—to meet specific development needs.
- Financial independence from city budget. The corporations collect management and service fees, receive membership dues, and account for their own budgets.
- Employment of professional expertise. The corporations employ professionals with development expertise such as industrial development and marketing specialists, real estate agents, financial experts or lawyers independent of civil service restrictions.
- Continuous access to public and private decision-makers. The staff has direct contact with public and private leaders via a board of directors whose members are generally selected because of their ability to influence the allocation of resources for urban development.

SOURCE: Coordinated Urban Development (Washington, D.C.: Council for Urban Economic Development, March 1978), pp. 165–169.

strengthen the institutional structure for cooperation in the employment and training area have recently been expanded through such developments as the initiation of Private Industry Councils. Coordination should not entail compulsory requirements for hiring the hard-to-employ in connection with new economic development programs because such requirements would certainly prove counterproductive. There might, however, be incentives or arrangements for firms coming into an area to give consideration to the job qualifications of local residents, including the hard-to-employ. An example of one such arrangement is the agreement worked out before Wacker Siltronix Corporation, a German company, opened a plant in Portland, Oregon (see box below).

WACKER SILTRONIX CORPORATION
PORTLAND, OREGON

In October 1980, Wacker Siltronix Corporation formally dedicated its new $50-million silicon-wafer manufacturing plant in Portland, Oregon. This dedication marked the end of a three-year redevelopment project characterized by speed, perseverance, and cooperation between Wacker and the city of Portland. It also represented a critical point in an ongoing partnership through which Wacker's personnel needs will be met through a program that directly attacks the city's hard-core unemployment problems.

Wacker entered into a hiring agreement with Portland to accept city-sponsored training and placement programs as the first source of 450 new employees. By the time of the plant dedication in the fall of 1980, 450 persons had completed training and were employed by Wacker.

The city has a new industry, one that has already attracted additional secondary industries to the community. Wacker has a plant operating to its specifications and is planning a major expansion in the next decade.

The Wacker project has provided the city a successful model for human development and job training. In discussing the Wacker story, Professor Kimbark MacColl, a local historian, noted that the "first source" agreement was an important signal to the citizens of Portland that their city government cared as much about human development as it did about industrial development.

SOURCE: Based on George P. Barbour, Jr., "Portland: A Balance of Interest in Public-Private Cooperation" (Paper prepared for the Committee for Economic Development, New York, 1981).

FOSTERING ECONOMIC PARTNERSHIPS

For the mutual benefit of public-private cooperation to be realized, both sectors need new skills and new levels of flexibility and adaptability. Local governments will need to provide the expertise necessary for evaluating potential joint projects and for negotiating contractual arrangements with private-sector participants. Business participants must develop the necessary skills for negotiating with local governments, recognizing that they cannot dictate the terms of cooperation. Each sector needs to recognize that the other has an important stake and a legitimate interest in what has often been considered its independent sphere of activity, and each needs to understand the other's objectives, resources, decision processes, and ways of doing business.

Negotiation is the key to successful economic partnerships. Project goals, levels of investment, design, and management issues all must be negotiated among the participants. Negotiations with other constituencies may also be required, especially in instances where economic development projects affect neighborhoods.

CHAPTER FOUR

PARTNERSHIP TO STRENGTHEN NEIGHBORHOODS

A neighborhood is composed of its residents and their social institutions, including families, neighborhood organizations, ethnic groups, and religious institutions. In addition, it is characterized by its housing, commerce and industry, and community services. Housing includes single-family and multifamily units, some of which are owner-occupied, and others of which are rented. Commerce typically comprises business offices, retailers, and service establishments. Industry usually consists of light manufacturing. Important community services at the neighborhood level include schools, police, sanitation, transportation, and social services.

CONSIDERATIONS FOR NEIGHBORHOOD IMPROVEMENT

Each neighborhood component depends upon the others. However, market incentives in the private sector do not automatically take these economic and social relationships into account. For example, although oil companies and retail stores have large investments in inner cities, they do not necessarily consider the relationship between investment and neighborhood improvement. Financial institutions have not always sought lending opportunities in all parts of the city. The Community Reinvestment Act

(CRA) of 1976 affirmed that helping to "meet the credit needs of the local communities in which they are chartered" is a national priority.[1]

Government policy has not always considered important interdependencies when addressing the problems of neighborhoods. For example, programs that provide affordable housing for low- and moderate-income residents often failed to ensure stable tenancy because of lack of jobs, necessary community services, and supportive social institutions. This was due in part to an inadequate understanding of socioeconomic problems and in part to a tendency for government to divide related problems into separate functional categories, such as housing, economic development, and education.

Over the years, federal policies toward neighborhoods have become progressively better coordinated and more cognizant of the need to deal comprehensively with interdependent problems in the places where they occur. For example, federal support for expansion of the Neighborhood Housing Services (NHS) was based on the belief that private lenders, homeowners, and government should work together to prevent neighborhood decline. The idea originated as a grass-roots effort in Pittsburgh in 1968, was promoted by the federal government for replication in other cities, and in 1978 became the mission of the Neighborhood Reinvestment Corporation (NRC), which was established by Congress (see box on page 49).

Experience suggests the need for both government and private-sector approaches to neighborhood improvement that are based on the following considerations:

- **Preserving and enhancing the existing assets of neighborhoods.** These efforts should include the rehabilitation of housing stock, the revitalization of commercial establishments, and the support of social institutions and organizations. Neighborhoods have potential as well as problems. The first rule of neighborhood strategy should be to "do no harm," and the second should be to stop doing those things that make it more difficult for residents to act in their own behalf. More effort should be made to develop assets already available, recognizing the ways in which housing and commercial rehabilitation and supporting social institutions can be mutually beneficial.

- **Promoting new housing and commercial and industrial development compatible with the existing assets and character of neighborhoods.**

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[1] In the fall of 1980, the Conference Board assembled officials from twelve major lending institutions to discuss the CRA. They stated that the act had, in their opinion, generated more innovation in providing financial services to neighborhoods.

In the past, new development frequently undermined the stability of neighborhoods, leading to the deterioration of existing housing and commercial stock. Plans for new development need to avoid such mistakes by being sensitive to their impact on existing houses, businesses, public places, transportation, and other important neighborhood assets.

- **Facilitating and supporting self-help efforts.** Residents and merchants are the most likely to generate actions that are responsive to the institutions and character of the neighborhood. Neighborhood self-help groups, such as citizens associations, merchants organizations, neigh-

NEIGHBORHOOD HOUSING SERVICES

Neighborhood Housing Services (NHS) brings together private financial institutions, local governments, and homeowners in order to provide the financing, public services, and personal incentive required to rehabilitate housing and prevent neighborhood decline. NHS programs currently operate in more than one hundred neighborhoods located across the country.

Although no two NHS programs are exactly alike, a typical program serves a neighborhood of 1,000 to 2,000 houses with three employees, an operating budget of $66,000, and a revolving loan fund of $300,000. Neighborhoods selected are usually comprised of single-family structures owned by the residents whose incomes permit them to make needed repairs and renovation. Such neighborhoods are not in advanced stages of decline, but show evidence of deterioration that can be arrested by the joint efforts of all residents to upgrade their homes simultaneously.

In its first year of operation, a typical NHS program on the average:

- Provides counseling and technical assistance to 206 clients
- Refers eighteen loans totalling $129,000 to commercial lending institutions
- Makes thirteen loans totalling $50,000 from its revolving loan fund
- Works with city inspectors to conduct sixty housing code inspections
- Persuades the city government to provide $300,000 in additional public services such as street repairs to the neighborhood

SOURCE: Based on A Common Ground: Neighborhood Partnerships, 1979 Annual Report (Washington, D.C.: Neighborhood Reinvestment Corporation, April 1980), p. 51.

borhood development corporations, and volunteer crime patrols, offer an opportune vehicle for addressing neighborhood needs. They are more likely than other organizations to be knowledgeable about the needs of their constituents, skillful in working with local residents, motivated to perform in their own interest, and held accountable for results by those who stand to benefit. Some have developed sophistication in organizing local residents, negotiating with business, securing loans, leveraging funds, and pressing local government for services that complement their own efforts.

PUBLIC-SECTOR APPROACHES

There are three categories of instruments the public sector can use to meet neighborhood needs: financial incentives, administrative options, and improvement of community services.

FINANCIAL INCENTIVES

Grants, loans, and tax incentives, including credits, exemptions, abatements, and deferrals, may be geographically targeted and/or specified for particular problem areas, such as housing.

- *Pennsylvania's Neighborhood Assistance Program* offers tax credits on state corporate taxes for businesses that contribute money or other resources to programs to help needy families, individuals, or communities. Corporations have the option of sponsoring their own projects in a community or contributing to nonprofit neighborhood groups for specific programs. The cost of a contribution to Neighborhood Assistance is less than the cost of a normal charitable contribution because of the large write-off permitted on state corporate taxes.

- *State government housing rehabilitation programs* are a relatively new means of dealing with deteriorating housing stock. According to a 1980 survey, nineteen states have grant and loan programs, and sixteen states use tax incentives.[2] Most of these efforts are limited to blighted areas.

- *Homesteading* is a process whereby government deeds property to an individual or an organization in exchange for a commitment to upgrade the property. Provisions for transfer may have income eligibil-

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[2] *The States and Distressed Communities: The 1980 Annual Report* (Washington, D.C.: National Academy of Public Administration and the U.S. Advisory Commission on Intergovernmental Relations, September 1980), pp. 13–15.

ity requirements and may specify minimum tenure of owner occupancy. HUD has cooperated with numerous cities to implement this program.

- *Venture capital*, such as that provided by the state governments of Minnesota and Massachusetts to local development corporations active in poverty areas, is financial aid targeted principally for commercial development.

ADMINISTRATIVE OPTIONS

Administrative options, such as targeting procurements geographically and by income, modifying building code and zoning requirements, establishing quasi-public entities to enable financing and provide technical expertise and/or make available skilled staff, and formulating a policy or plan for neighborhoods, are among the administrative options that can encourage neighborhood vitality.

- *The city of San Francisco* has developed Special District Zones to prevent new commercial development from threatening the economic and social character of an area. These controls seek to limit displacement of shop owners and tenants. The Planning Department worked with residents and merchants to formulate a plan for balanced development on Union Street.

- *The city of Oakland* has targeted nine neighborhoods for commercial revitalization. Its Economic Development Division provides a one-stop service for prospective businesses that includes technical assistance, site-location analysis, and facility-licensing procedures. Oakland uses a bidding policy designed to retain small businesses.

- *In Portland, Oregon*, the Office of Neighborhood Associations was set up by then Mayor Neil Goldschmidt to coordinate and provide support for community organizations. Planning and involvement in the city's legislative process is vigorously encouraged. Full-time staff personnel have been made available to some of the associations.

COMMUNITY SERVICE IMPROVEMENT

Governments can also assist in upgrading or tailoring public services, especially in conjunction with other neighborhood-improvement efforts. The role of local government in community service improvement is discussed in Chapter 5.

PRIVATE-SECTOR APPROACHES

There is a range of mechanisms available to the private sector for strengthening neighborhoods.

BUSINESS FIRMS

Approaches used by businesses depend upon such factors as the size of the firm, its tenure in the community, its employees, its facilities, and the types of goods and services it supplies. Firms can use monetary contributions, loan their expertise or facilities, provide their reputation for added clout, or make community investments.

Monetary contributions typically are made through company foundations.

- The Standard Oil Company of Indiana, through its foundation, has a program that gives grants to neighborhood organizations. Although it is a large contributor to United Way, Standard Oil has also decided to set aside a portion of its contributions for activities not likely to be funded by United Way. For example, it gave a grant to provide for inner-city housing in Chicago. It also makes a practice of giving to technical assistance groups that can aid their less sophisticated grantees.

- The Dayton Hudson Foundation has been a leader in community outreach efforts. This Minneapolis-based company foundation developed a planning process with the Whittier neighborhood to upgrade housing, commercial, and social conditions. The Whittier Alliance, a community development corporation, was a product of this planning effort. The alliance received a $1-million grant from the Dayton Hudson Foundation to implement a development plant.[1]

Staff may be loaned for the short or the long term. Such a program may involve all levels of personnel. Companies can also encourage employee involvement with community organizations and provide an additional incentive by offering grants to the community organizations.

- Exxon's Volunteer Involvement Program encourages staff to work for community agencies. Exemplary cases of involvement are rewarded by grants being given to the community group. Staff participants receive official recognition from Exxon in publications and ceremonies.

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[1]/ Renae Hanson and John McNamara, *Partners: Neighborhood Revitalization with Private Partnerships* (Minneapolis: Dayton Hudson Foundation, March 1982).

Other corporate resources can be used to improve neighborhoods. Businesses can provide management assistance to neighborhood-based organizations, as they have to local governments. Loan of facilities, such as space or equipment, can also be provided to neighborhood organizations. Corporate reputation can be used to influence other corporations or to give credibility to a neighborhood issue or organization.

- Pressure brought to bear on local financial institutions by Cincinnati's leading corporations led to the development of moderate-income housing in the central city.

Businesses also make investments in neighborhoods that are intended to produce a return to the company. Some of that return, however, may be in the form of community improvement, which will benefit the firm in the longer run.

- The Shaw neighborhood of Washington, D.C., which had been devastated in the urban riots in the 1960s, will be the site of a new supermarket, the first built in the inner city since 1968. Joint-ownership arrangements include a Shaw citizens group, Giant Food, and the D.C. Development Corporation.
- Chicago banks and savings institutions have announced a commitment of $71.8 million in long-term loans to small businesses. This is a program for commercial and industrial development that involves neighborhood development organizations (see box on page 55).
- Control Data Corporation has intentionally located plants in depressed areas and provided employees with such services as day care, legal services, and personal, educational, and financial counseling.

NONPROFIT CORPORATIONS

A wide variety of nonprofit organizations affect neighborhood development, but foundations, intermediary organizations, and self-help groups are especially important.

FOUNDATIONS. Private foundations use two basic instruments to stimulate activities: grants and program-related investments.

- Since its founding in 1926, the Charles Stewart Mott Foundation (Flint, Michigan) has encouraged self-help. Mott works closely with national intermediary groups to identify emerging neighborhood groups that could benefit from assistance in the form of small grants. It offers community education programs designed to stimulate greater neighborhood involvement in local institutions.

In 1968, the Ford Foundation initiated a program in which capital funds were to be invested directly for social purposes. Called *program-related investments*, these funds are loaned to, or invested in, enterprises that serve public-interest goals, such as minority economic development, low-income housing, public television, or the preservation of open land. The Cooperative Assistance Fund was established by nine foundations to make program-related investments in minority-owned or -operated enterprises and other groups operating in disadvantaged areas.

- One of the Ford Foundation's largest program-related investments to date has been a $3.4-million guarantee of a five-year commercial loan from New York's Chemical Bank to the Bedford-Stuyvesant Restoration Corporation to finance construction of a commercial center. Restoration is one of ten community development organizations serving minority communities throughout the country that has received Ford support. It is engaged in a comprehensive program of social, physical, and economic rehabilitation in New York's largest black community.

A unique organization that departs from the traditional private foundation model is the Enterprise Foundation. Formed in 1981 by developer James Rouse, it wholly owns the Enterprise Development Corporation, a for-profit commercial real estate firm. Profits from this firm will be used to achieve the foundation's goal of supporting ways of providing housing for low-income people. The Enterprise Foundation seeks to identify community housing groups that have developed approaches to helping the poor bring slum housing up to livable conditions without displacement.

INTERMEDIARY ORGANIZATIONS. Intermediary organizations provide financing, information, training, and technical assistance to support self-help organizations such as community development corporations. They also assist self-help groups in keeping in touch with one another for mutual assistance and joint projects. By concentrating their expertise on the financing and operation of self-help organizations, intermediary organizations also aid donor organizations in directing resources into productive enterprises for neighborhood improvement and in actively working to produce results.

- The Local Initiatives Support Corporation (LISC) was incorporated in 1979 as a joint effort of the Ford Foundation and six major private insurance, banking, and industrial firms (Aetna Life & Casualty, Atlantic Richfield Foundation, Charles Stewart Mott Foundation, Continen-

tal Illinois Bank and Trust Company of Chicago, International Harvester Company, Levi Strauss and Company, and The Prudential Insurance Company of America). LISC "is designed to help strengthen and expand the capacity of independent, community-based development organizations to improve the physical and economic conditions

CHICAGO:
NEIGHBORHOODS AND BUSINESS WORKING TOGETHER

Chicago serves as an incubator for many of the models of business-government-neighborhood partnerships. There is a recognition of the economic and social importance of neighborhoods. More precisely, this means that survival of the downtown and, ultimately, the city, depends on the stability of its neighborhoods. Each sector has developed leaders with a track record. Organizations in each sector routinely interact. And there is an attitude that success is feasible and competency is available.

Examples of this partnership include:

- Neighborhood Development Organizations (NDOs). These are local development corporations which undertake or promote commercial and industrial development for a specific neighborhood.
- Chicago Association of Neighborhood Development Organizations (CANDO). Over forty NDOs and local Chambers of Commerce belong to this consortium. Members participate on committees where they exchange ideas and provide technical assistance. CANDO has a specialist to aid in loan packaging.
- Illinois Neighborhood Development Corporation. This is a regulated bank holding company in the South Shore area. In addition to a bank and a real estate corporation, a nonprofit unit, The Neighborhood Institute (TNI), administers education, employment training, and development programs. Standard Oil Company of Indiana and TNI have recently joined to work on housing for the poor.
- Continental Illinois Corporation (CICorp). Through its neighborhood investment program, CICorp has committed over $44 million to neighborhood residential, commercial, and industrial rehabilitation and development projects. This public-private partnership has leveraged $48.3 million in public funding. CICorp works both through intermediary organizations and directly with self-help groups.

of their communities." Starting in June 1980, LISC went into the field to identify twenty local groups that were ready to expand their development capability. By October 1981, it had made grants and loans and given technical assistance of more than $7 million to eighty separate community-based development organizations across the country. It has attracted local matching funds in fourteen areas and created local LISCs in those places. Its resources have grown from the original $10 million to $25 million in a period of one year. All this growth has come from corporations and local foundations. (See box on page 57 for examples of programs already under way.)

- The National Development Council (NDC) is a private nonprofit organization that helps local communities organize public-private efforts for economic development. Through the Neighborhood Business Revitalization program, NDC helped sixty cities organize a local public-private development organization, train staff in financing and management techniques, and provide technical assistance for commercial and industrial development.

- The Center for Community Change in Washington, D.C., is a nationwide intermediary that for over a decade has provided assistance to thousands of urban and rural community groups. Services include numerous publications on residential and commercial revitalization, management and financial skills development, and financial aid.

- National Training and Information Center received a $225,000 grant from the Aetna Life and Casualty Company to hire experts in neighborhood planning, construction, and renovation to work with six selected neighborhood groups in Chicago, Cleveland, Philadelphia, and New York. Aetna is prepared to invest in major development projects identified in these cities.

- Partners for Livable Places has been engaged, since 1978, in investigative and public-awareness activities on behalf of tourism and cultural conservation in communities. It has worked with numerous small and large cities to promote cultural development. Partners published a newsletter that spotlights cases and issues affecting cultural planning.

SELF-HELP ORGANIZATIONS. There are five common types of neighborhood-based enterprises.[4]

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[4]/ The first four are also discussed in Neil Kotler and Joseph Dahms, *Neighborhood Economic Enterprises* (Washington, D.C.: National Association of Neighborhoods and the Charles F. Kettering Foundation, 1978), pp. 5–10.

LOCAL INITIATIVE SUPPORT CORPORATION: Project Examples

LOCAL ORGANIZATION	TYPE OF PROGRAM	DESCRIPTION
INQUILINOS BORICUAS EN ACCION (IBA) (ETC Development Corporation) Boston, Mass.	Residential construction of 190 units of HUD Section 8 subsidized housing	Construction began in mid-September 1980, and is proceeding ahead of schedule. Project completion is anticipated for December 1981. Tenant selection is currently under way for the first residential units to be completed. First scheduled interest payment of $10,026 has been received.
JUBILEE HOUSING, INC. Washington, D.C.	Rehabilitation of properties, equity to purchase other properties and long-range financial planning and development	The LISC grant and the Community Foundation's $137,500 match, represent $275,000 of a $475,000 effort by Jubilee Housing to acquire and renovate low- and moderate-income housing units. An additional $100,000 is expected from private-sector supporters. Individual corporate gifts and a direct mail campaign are expected to bring in the remaining $100,000.
NORTH WARD CENTER, INC. (NWC) Newark, N.J.	Administrative support to operate a housing construction subsidiary	NWC plans to hire additional staff for the housing construction subsidiary. Sources of matching funds include $10,000 from the Dodge Foundation, for each of two years for a total of $20,000, and $5,000 each from Fidelity Union Trust, Midatlantic Bank, and First National State Bank of New Jersey.

SOURCE: Status report of approved program actions, Local Initiative Support Corporation (New York: June 1981).

Community Development Corporations. CDCs are originated and controlled by persons living in poor areas; their purpose is the planning, promoting, financing, and wherever possible, operating and owning of businesses that generate income, employment, and economic opportunity. CDCs combine outside capital (both federal and investor funds) with community initiative and control.

- Bedford-Stuyvesant Corporation, located in Brooklyn, New York, has promoted commercial and residential development. It was the prototype for federally initiated CDCs. It is now a multimillion-dollar diversified company composed of several for-profit and nonprofit firms.

- Jeff-Vander-Lou, Inc. (JVL), serves a 500-square-block area on the near north side of St. Louis. Incorporated as a nonprofit organization in 1966, its accomplishments include housing rehabilitation and construction for the poor, elderly, and handicapped. JVL also operates child-care services and education programs for high school students to increase community interest. In the 1979 to 1980 period, JVL generated more than $3 million worth of community activity, including residential development, service programs, and core staff operations.

Cooperatives. Cooperatives are owned and controlled by their members through a board of directors composed of members.

- Jubilee Housing, established in 1973, improves housing conditions for the low-income residents of the Adams-Morgan neighborhood in Washington, D.C. It acquires buildings, performs rehabilitation with the use of volunteers, minimizes dislocation by doing the work in stages, provides support services (health, education, social service), and supports the development of cooperative management.

Community Development Credit Unions. Credit unions are financial cooperatives owned by the depositors and borrowers and governed by a board of directors elected by the members. Their mission is to invest and use a community's resources for its own improvement and to extend credit to residents who have been unable to meet their credit needs through conventional lenders.

- The National Federation of Community Development Credit Unions (New York City) was established over ten years ago. It has more than 100 members and provides training in financial management and staff development through seminars and regional conferences.

- Baltimore's North Greenmount Community Development Federal Credit Union, chartered in 1978, has been particularly successful in developing a relationship with the city in a mortgage-bond program to provide low-interest loans for the purchase and rehabilitation of homes. The average income of the area served by the credit union is $11,000. Since 1978, the organization has grown from 20 to 1,200 members, and it now has $600,000 in deposits. The city of Baltimore has contributed block grant funds to aid the efforts of the credit union.

Community Investment Trusts. A community investment trust is a self-help financial vehicle set up by a group of individuals for charitable or business purposes. It is often utilized by community development or other nonprofit corporations.

- Zion Nonprofit Charitable Trust, established in North Philadelphia, used contributions derived from congregation members and converted them to shares of stock in Progress Investment Associates, Inc., a for-profit community development corporation. Over $1 million was raised through subscriptions. A portion of the income from this $1 million was put into a charitable trust, and another portion went to the corporation. In the early 1970s, a ruling by the Securities and Exchange Commission made it possible to enroll individuals living anywhere in the country.

Community Organizations. Self-help can also be designed to build organizational capacity. Organizing efforts, in turn, can evolve into development projects.

- The Michigan Avenue Community Organization (Detroit) is a citizen-organizing effort of seven contiguous areas that has been able to engage in building coalitions and leveraging government and private funds to address problems related to housing and crime.

- The North Central Seven Community Organization in Detroit is following a similar course of action.

TARGETING NEIGHBORHOOD RESOURCES

The scarcity of funds in relation to the growing needs in neighborhoods will require more careful selection and more skilled management of corporate and nonprofit philanthropy and other programs. **We urge private organizations, including businesses and foundations, to take the following**

steps in order to more systematically identify and support critical community needs:

- **Target their contributions to nonprofit and self-help organizations addressing priority community needs and having a reasonable probability of success**
- **Leverage resources with other sources of funds and human efforts (including volunteer services)**
- **Provide technical assistance when necessary to improve organizational capacity and ensure the effective use of funds**
- **Monitor performance to increase the likelihood that financial contributions will produce results**

It will be equally important for nonprofit and self-help organizations to improve the utilization of their resources both to assure high performance with scarce funds and to attract and effectively use corporate and foundation contributions.

CHAPTER FIVE

PARTNERSHIP TO IMPROVE COMMUNITY SERVICES

Most urban communities are having increasing difficulty in providing such services as transportation, education, public safety, health and social services, water supply and sewage disposal, solid waste management, and recreation and cultural activities. Such services are essential to the proper functioning of private organizations, which also pay taxes to support them. Businesses invariably cite inadequate schools, crime, and poor transportation as deterrents to locating or doing business in cities. They also complain of high taxes that result from excessive public-service burdens or inefficiency.

The private sector is also a provider of community services. None of these basic services is operated exclusively by government. Each is a system of components operated by government, business, nonprofit organizations, voluntary associations, households, and individuals: for example, doctors, hospitals, and clinics in health; private security forces and alarm system manufacturers in security; private bus operators, taxi companies, and the automotive industry in transportation; private schools and universities in education; the sports and amusement industries and the arts in recreation and culture.

PROBLEMS WITH PUBLIC SERVICES

Serious problems are being encountered both in the construction and maintenance of physical facilities and in the operation of services.

CAPITAL CONSTRUCTION AND MAINTENANCE

Public facilities—including highways, roads, bridges, tunnels, mass transit facilities, water supply and sewage disposal facilities, flood control

structures, ports and harbors, parks, hospitals, schools, colleges, libraries, firehouses and hydrant systems, prisons and jails, and police stations—are obviously more than amenities; they are basic to economic functioning and urban life.

As numerous studies have found, much of America's physical infrastructure is in disrepair and deteriorating. A 1980 Department of Commerce study that examined the condition of public works in nine cities reached mixed conclusions: It found water treatment and distribution systems and sewage collection and treatment systems generally in good or fair condition, streets and bridges varying from poor to very good, and mass transit systems varying greatly but generally improving.[1]

A study of New York City reported the following:

> Over $40 billion must be invested in New York City alone over the next nine years to repair, service, and rebuild basic public works facilities that include: 1,000 bridges, two aqueducts, one large water tunnel, several reservoirs, 6,200 miles of paved streets, 6,000 miles of sewers, 6,000 miles of water lines, 6,700 subway cars, 4,500 buses, 25,000 acres of parks, seventeen hospitals, nineteen city university campuses, 950 schools, 200 libraries, and hundreds of fire houses and police stations. Because of its fiscal condition, New York City will be able to invest only $1.4 billion per year to repair, service, and rebuild these facilities.[2]

As fiscal pressures on local government have grown, maintenance has proved a popular expense to cut because the effects are not immediately evident and there is usually no active political constituency that is immediately displeased. Public works investment (measured in constant 1972 dollars) at all levels of government in the United States declined 21 percent, from $38.6 billion in 1965 to less than $31 billion in 1977. As a proportion of the gross national product, the decline was 44 percent, from 4.1 percent to 2.3 percent. Between 1975 and 1977, state and local investment alone decreased by 14 percent in real terms.[3]

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[1] CONSAD Research Corporation, *A Study of Public Works Investment in the United States* (Washington, D.C.: U.S. Department of Commerce, 1980), p. 26. The nine cities were Baltimore, Dallas, Des Moines, Hartford, Newark, New Orleans, Pittsburgh, Seattle, and St. Louis.

[2] Harrison J. Goldin, *Deteriorating Infrastructure in Urban and Rural Areas*, Subcommittee on Economic Growth and Stabilization, Joint Economic Committee, Ninety-Sixth Congress, First Session, (Washington, D.C.: U.S. Government Printing Office, 1979), pp. 42-53, cited in Pat Choate and Susan Walter, *America in Ruins* (Washington, D.C.: The Council of State Planning Agencies, 1981), pp. 2–3.

[3] *Statistical Abstract of the United States*, as cited in Choate and Walter, *America in Ruins*, pp. 2–3.

Lack of attention to basic public facilities threatens the national goal of economic revitalization. Both the public and the private sectors in local communities should recognize that deteriorating public facilities not only detract from the general quality of life but also threaten to undermine economic competitiveness with other communities that are willing to keep their physical plant in good repair and efficient operating condition. Deteriorating infrastructure should also be of concern to the federal government because it threatens the national goal of economic growth.

PUBLIC-SERVICE OPERATIONS

Because most public-service agencies are monopolies, they are rarely motivated by competitive pressures to improve performance or reduce costs. Public employees individually are as capable, as motivated, and as concerned as private employees are perceived to be. However, except for budget examination, occasional exhortation by elected officials, or coverage by the media, there is no regular and persistent outside pressure on public agencies to perform at a higher level.

Most public services are financed wholly or partly by taxing the general public, even though the service may benefit relatively few recipients. Service recipients therefore are naturally less concerned with the cost than with the level, quality, convenience, and reliability of the service. Bureaucracies are inclined to respond to these signals by expanding services to satisfy persistent and politically influential, but not necessarily cost-conscious clients.

The more specialized and complex a service becomes, the higher the training requirements for the personnel providing it, and the greater the need for professionalism. But professionalism occasionally takes on a life of its own, with its own requirements for education, degrees, apprenticeships, associations, and privileges. It is frequently difficult to distinguish between legitimate professional standards and the interest of the profession in protecting jobs and privileges.

The more professionalized the service becomes, the more likely it is that the professional will join the recipient in arguing for the higher level of service. This reflects both the professional's responsibility to provide quality service and an intuitive desire to maintain or expand the importance and scope of professional responsibility.

Because of their monopoly status and indirect financing, public-service agencies too often operate in isolation from private organizations and individuals active in the same field. This tendency may be reinforced by poorly conceived legislation and policy guidance from top officials who lack an understanding of the private dimension of community service systems.

OPTIONS FOR MEETING PUBLIC NEEDS

The growth in public services has tended to obscure the original purpose of local government as a political decision maker. Local government has a responsibility to protect the public health, safety, and welfare, but that responsibility does not necessarily require government's becoming a direct provider of services; in fact, in some instances the need may be better met by means totally outside of government. **Local governments should distinguish between the role of policy maker and that of service provider and should more actively consider alternatives to conventional public-service agencies in carrying out their policies.**

It is the task of government to identify public goals and set priorities among needs, to determine the best way of meeting them, and to create the conditions conducive to that end. Creating those conditions may involve doing nothing; adding, reducing, or more effectively managing government-provided services; using other tools of governance to meet a need; enhancing the private role in providing a service or meeting a need in some other way; or otherwise structuring the service system to encourage higher performance and lower cost.[4] All these options have important implications for the private sector.

THE PRIVATE ROLE IN COPING WITH THE FISCAL SQUEEZE

Local governments have four conventional choices in dealing with the growing fiscal burden of maintaining public services. They can raise revenues, cut costs, improve productivity, or reduce service levels. Each option involves the private sector in its various roles as service recipient, taxpayer, service provider, and corporate citizen concerned about the well-being of the community. **We urge private-sector organizations to assist their local governments in considering and acting upon each of these options.**

RAISING REVENUES

Raising revenues is not a popular option, especially in today's climate of taxpayer resistance. Nevertheless, some services are of such importance or may have fallen into such a state of disrepair that there is no reasonable option but to raise the additional real-dollar revenues required to pay for them.

- After several years of budget cuts, the city of Detroit determined that further reductions would prove fiscally counterproductive because

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[4] The Citizens League of St. Paul–Minneapolis explored many of the ideas related to such approaches in *Enlarging Our Capacity to Adapt*, Citizens League, Minneapolis, Minnesota, August 27, 1980.

dangerously low levels of such essential services as police and fire protection would drive more tax-paying residents from the city. With the active support of the private sector, the city government succeeded in winning public approval, through a referendum, for an income tax increase.

- The chairman of Caterpillar Tractor Company praised the City Council of Peoria, Illinois, for its "political courage" in "making the unpopular, short-term decisions necessary in achieving the long-term objectives of the Downtown Plan. The City Council, for example, adopted a 3 percent hotel-motel tax, a 3 percent amusement tax, and a 2 percent bar-restaurant tax without referendum to provide the financial underpinning for the Civic Center, a major project itself launched without referendum."[1]

Local government revenues can be raised by increasing existing taxes, improving tax administration, eliminating tax preferences, imposing new taxes (some of which require additional state authorization), securing grants from the state and federal governments, imposing or increasing user fees, increasing the return on cash investment, or expanding the tax base. Local governments rely predominantly on taxes (especially the property tax, although some draw on income and sales taxes) and grants from the federal and state governments as their principal sources of revenue. Both taxes and grants have reached fiscal and political limits. Property taxes are legally capped in many jurisdictions and politically difficult to raise in others. Federal and state grants are being reduced in both nominal and real terms, and consolidation of federal categorical programs into block grants to the states is likely to mean an even greater reduction in the amount of federal money available to local governments.

Improved property tax administration and elimination of tax preferences could provide additional revenues and create greater public confidence in the property tax system. Inequitable property assessments not only deprive local governments of revenue but also undermine public confidence in the property tax, creating one more pressure against its use for generating revenue. Economic development programs geared to increase the fiscal soundness of local government can fail in that purpose if disproportionately low assessments are given to commercial and industrial property. Business people who support economic development to promote fiscal

[1] Information provided to CED by Caterpillar Tractor Co., Peoria, Illinois, June 17, 1980.

health should also support more effective assessment administration to assure that growth in the tax base is translated into proportionally higher government revenues.

Charging the recipients of services for all or part of the cost of the service through user fees is one of the more promising options available to local governments in increasing revenues. It is also an approach to providing more effective public services. (For a further discussion of user fees, see page 76.)

One painless source of revenue available to local governments is interest on invested funds. Even within arbitrage limits established by the Internal Revenue Service, aggressive cash management, which involves professional management, rapid transactions, and the employment of all available cash in the complicated local government network of public agencies, can yield substantial returns.

In the long run, however, if local governments are to assume greater responsibility for public services, more broadly based revenue sources will be required. The private sector naturally desires to keep taxes and user fees as low as possible. *There is an equally important private sector interest in assuring that local government revenues are adequate to support the essential public services on which the private sector depends.*

REDUCING THE COST OF SERVICES

A second option is to reduce costs through lower relative labor costs, improving purchasing practices, minimizing borrowing costs, contracting at lower cost for services previously provided in-house or providing in-house services at lower costs than services previously provided under contract, and other conventional cost-cutting measures.

Public-employee wage and benefit levels that surpass comparable private-sector levels not only increase government costs and taxes but also create pressure for private employees to increase their compensation. On the other hand, when public-service jobs are underpaid in comparison with the private sector, it may be difficult for government to attract and retain qualified personnel, and services are likely to suffer.

CONTRACTING. Governments, like businesses, face the decision of whether to make or buy the components that go into their production process. Much has been written about the advantages and disadvantages of contracting with private firms to provide all or parts of various public services. There are limits to what public functions can be successfully contracted and potential pitfalls if suitable contractors are not available or if project management by the government is inadequate. Nonetheless, local governments have only begun to tap the potential for contracting with busi-

nesses and nonprofit organizations to provide certain services. The key to effective contracting lies in careful selection of what is to be contracted and professional management in writing requests-for-proposals, selecting contractors, negotiating contracts, and monitoring performance. There is a wealth of information and experience on contracting in such areas as refuse collection, solid waste disposal, snow and leaf removal, road maintenance, motor vehicle fleet maintenance, and food services.

- Under contract with Gainesville, Florida, ARA Services assumed complete responsibility for running Gainesville's two garages and fleet of motor vehicles. Former city mechanics and staff who worked in related maintenance functions such as parts management and record keeping were hired by the company. All positions except that of project manager were filled with former city employees. The fiscal 1981 budget of $1,211,000 was 11 percent below the projected fiscal 1979 budget for Gainesville's in-house program. The city's Office of Support Services estimated that savings during the first year of the contract were $296,000. Repair orders dropped from 11,260 in fiscal 1979 to 10,206 for fiscal 1980, and vehicle downtime was lowered to 4 percent. Repeat repairs were about 2 percent. Annual parts costs for fiscal 1980 increased by only 0.4 percent, despite inflation of more than 12 percent.

In some cases, it may be cheaper or more effective for local governments to produce in-house services previously provided under contract. Risk management or self-insurance is one example that has been successfully used by larger governments and smaller governments working in concert.

QUASI-PUBLIC CORPORATIONS. An alternative to either wholly contracting services or producing them in-house is the creation of quasi-public corporations that can provide the advantages of both public and private sectors.

- In 1979, the city of San Diego created a private, nonprofit corporation to manage its data processing activities. The corporation's board of directors is made up of persons from the private sector with backgrounds in data processing, finance, business, personnel, and law. The board is appointed by the City Council but possesses all the normal authority of a business enterprise. The city manager believes this approach has significantly improved data processing services because

an independent corporation has greater flexibility in dealing with the volatile labor market for data processing personnel and is also more efficient in procuring equipment.[a]

IMPROVING PRODUCTIVITY

A third option is to increase the ratio of service outputs or results to service inputs or costs, that is, to improve productivity. We reaffirm the findings and recommendations set forth in our 1976 policy statement *Improving Productivity in State and Local Government* as even more applicable today, given the growing pressures on local governments that were fully predictable when that study was begun more than seven years ago.

The key to improved productivity in public services is more effective management in all its phases: planning, budgeting, implementation, and evaluation. In fact, *the single greatest immediate opportunity for coping with the increasing pressures on public services is more effective management.* The knowledge and skilled personnel required for better management of public services are available. The principal obstacle to their effective use is lack of political incentive.

Productivity improvement also requires strengthening the work force. CED's 1978 policy statement *Improving Management of the Public Work Force: The Challenge to State and Local Government* dealt with the various political, economic, management, and human facets of the complicated local government personnel system. Here again, the approaches and techniques are available; the obstacles are largely political.

Local government productivity can also be enhanced by the more skillful use of capital and technology and better information on the costs and performance of agencies in comparison with their own past performances and with similar operations elsewhere.

ASSISTANCE FROM BUSINESS. The private sector can play an important role in improving local government productivity by providing the technical expertise and political support required to achieve it. Although virtually all segments of the community would benefit from improved government productivity, few actively support it as a political goal, and numerous interests typically resist improvement efforts. Lack of active political support is due partly to the fact that no single constituency stands to benefit enough to justify the time and resources necessary to push for improvement and partly to ignorance of what productivity means and how it can be achieved. A related problem is that systematic improvement in

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[a] *Government Financial Management Resources in Review* (Washington, D.C.: Municipal Finance Officers Association, Government Finance Research Center, May 1981).

productivity requires professional staff, which is frequently considered unnecessary overhead by the public and elected officials who have little appreciation of what is required to manage large, complex organizations. The private sector, particularly the business community, is more likely to understand and appreciate the importance of productivity and therefore is a more natural constituency to support it. Moreover, business could lend its expertise to local governments to achieve greater productivity. In many communities, it has done just that.

- The Committee for Progress in Allegheny County (ComPac) in Pittsburgh, was formed to provide business expertise to improve county government administration. The corporations that loaned executives to this program absorbed the full cost, valued at more than $1 million. Nine local private foundations provided more than $250,000 in financial support for staff, consultants, dissemination of reports, and general administration. The resulting improvements involved no direct cost for the local taxpayers.

- In Niagara Falls, New York, in 1976, the Society for the Promotion, Unification, and Redevelopment of Niagara (SPUR) organized the City Management Advisory Board to assist the city government in turning chronic deficits into a surplus and in improving the productivity of numerous operations.

Business assistance and "loaned executive" programs should be undertaken with care. They have been most successful where objectives were clearly stated, the commitment of adequate resources was made, a reasonable timetable was set, the operations to be analyzed were clearly within the scope of expertise of participating executives or analysts and did not involve questions of policy, and all parties entered into the effort in a spirit of cooperation and mutual respect. They have most often failed when business people showed contempt for government officials, tried to address problems of government management they did not understand, failed to distinguish between operational and policy questions, or committed inadequate numbers or quality of people to the task.

We urge local businesses to actively support local government efforts to improve management and productivity and to offer assistance in the improvement of government operations.

REDUCING, ELIMINATING, OR TRANSFERRING SERVICES

A fourth option is to reduce service levels or terminate all or parts of services. As an alternative, the service recipient might assume the responsi-

bility for the service, the function might be shifted to another level of government, private organizations might provide the service for a charge (with or without profit or subsidy), or private philanthropists might assume the responsibility.

The magnitude of federal budget reductions has yet to be determined, but there is little question that the cuts will be substantial. In the areas of social welfare, education, health, income assistance, and related services, President Reagan's fiscal 1982 budget proposed cuts of $128.2 billion for the period from 1981 to 1984, or about 17 percent below the budget proposed by President Carter in January 1981. Such reductions will affect local communities in several ways. Reductions in federal grants will confront state and local governments with the need to eliminate the funded programs or to find other revenues to maintain them. Reductions in federal assistance to individuals will confront local government with decisions of whether to continue assistance to those individuals with its own funds. Reductions in federal funds to private, nonprofit organizations will diminish the ability of those organizations to pick up program responsibilities that are being dropped elsewhere, and local governments will have to decide whether to finance those nonprofit organizations with their own funds. The Filer Commission estimated in 1975 that one of every ten service workers and one of every six professional workers in the United States were employed by nonprofit organizations.[7] One estimate places the revenue losses to nonprofit organizations in the social welfare, education, health, and income assistance service categories at $27.3 billion for the 1981-to-1984 period if the original Reagan budget were to be adopted by Congress.[8] Potential positive effects of the 1981 Economic Recovery Tax Act include the liberal tax deductions and credits and shortened depreciation schedules for the rehabilitation of existing buildings and/or lease of capital equipment.

A difficult challenge for private organizations and philanthropists will be to determine whether to fund services that recipients cannot or will not finance themselves but that are important to individuals and the community.

- In Dallas, Texas, the private sector contributed more than $8 million, through the ad hoc Friends of the Dallas Public Library committee

[7] *Giving in America* (Washington, D.C.: Commission on Private Philanthropy and Public Needs, 1975), p. 11.

[8] Lester M. Salamon, "The Reagan Economic Recovery Program and the Nonprofit Sector: An Overview" (Paper prepared for The Urban Institute, Washington, D.C., October 1981).

toward the construction of a major $40-million central research library that had long been stalled for lack of public funds.[9]

- Baltimore's "Blue Chip In" is a program organized by local firms and the city government to direct corporate resources toward serious gaps left by the withdrawal of federal funds.

Private philanthropic sources and nonprofit organizations should develop an understanding of the scope of needs facing their communities, the private resources available to deal with them, and the options available for meeting the most important needs in the most effective manner.

EFFECTIVE USE OF THE TOOLS OF GOVERNANCE

There is a range of tools available to local governments to address public needs short of establishing service agencies.[10] Preoccupation with the problem of maintaining large and costly bureaucracies has tended to overshadow consideration of how these tools could be used more effectively.

Local governments should examine the traditional tools of governance as alternatives to the direct provision of public services and should more systematically consider how those tools can be used with minimum negative impact on private organizations and individuals.

- **Government leadership and advocacy.** Government officials can provide leadership and incentive, establish contact among groups that have common interests in working together, and seek out creative individuals and organizations in the community to give them encouragement and support.

- **Support for public participation, volunteerism, and self-help.** In recent years, the policy process has become congested as growing numbers of active participants attempt to influence decisions. Much progress has been made in accommodating increased public participation, but there is growing recognition that alternatives are required to

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[9]/ Based on William Claggett, "Dallas: A Case Study of the Dynamics in Public-Private Cooperation" (Paper prepared for the Committee for Economic Development, New York, 1981).

[10]/ SRI, International has undertaken a series of studies examining the various tools of local governance, which it categorizes as "nonservice approaches" to distinguish them from direct service operation by government. See, for example, *Rediscovering Governance: Using Nonservice Approaches to Address Neighborhood Problems—A Guide for Local Officials* (Menlo Park, Calif.: SRI, International, 1980).

channel this civic energy more directly into volunteer and self-help activities that can directly satisfy the concerns giving rise to it.

- **Law and regulatory power.** Law making and regulation have gained disrepute at all levels of government in large measure because laws and regulations have too often failed to consider the real impact on private behavior and the costs imposed. What is required is greater attention to considering the real costs and benefits of laws and regulations, including the use of benefit-cost analysis before they are enacted and systematic evaluation after they have been in effect.

- **Tax policy.** Taxes not only raise revenues but influence behavior. Changes in tax policy to motivate desired kinds of private behavior should be used sparingly and should be subject to the same type of cost-benefit analysis and evaluation as legislative and regulatory actions.

- **Financial tools.** In addition to contracting, local governments provide loans and grants to private service agencies. A less frequently used financial tool is the provision of purchasing power in the form of vouchers to service recipients, who can then choose among available providers (private or public).

ENHANCING THE PRIVATE ROLE IN COMMUNITY SERVICES

The private role in community services can be enhanced through contracting; franchise awards; use of quasi-public corporations; termination of public services that are then provided by private organizations; legislative, tax, and financial incentives to private organizations; and more efficient coproduction, whereby both public and private organizations are involved in the provision of the same community service. The following sections present examples of the potential for a more active private role and for more effective interaction between public and private participants in three major community services: transportation, crime control, and fire and rescue services.

MASS TRANSIT

The trend away from private and toward public operation of urban mass transit during the twentieth century tended to obscure and often impede opportunities for private initiatives. As the cost of public systems has soared, the incentive for private operators and the need for governments to seek less expensive alternatives have increased. In the larger metropoli-

tan areas, private bus companies have been operating profitable commuter services for years, although a profitable operation may require some public subsidy. Other examples include the following:[11]

- Private taxicab companies provide shared-ride taxi service to the public under purchase-of-service arrangements with local authorities in Norfolk, Virginia; Phoenix, Arizona; Columbus, Ohio; Birmingham, Alabama; San Diego, California; and Charlotte, North Carolina.
- In a score of communities, employers help their employees to set up van and car pools or provide private bus service, as in the case of the 3M Company in Minneapolis, Atlantic Richfield in Houston and Los Angeles, and the Reader's Digest Company in suburban Westchester County, New York.
- In Pennsylvania's Montgomery County, a nonprofit association coordinates the services of fourteen taxi companies operating throughout the county.
- Large developers in Dallas, Texas, and Orange County, California, are underwriting major road improvements that will improve access to their facilities and are subsidizing taxi service within their residential developments.

PUBLIC SAFETY

Protection of life and property is neither exclusively nor predominately a government concern or responsibility. The government criminal justice system, including police, prosecutors, courts, correctional institutions, and social-service agencies, has been largely unsuccessful in dealing with violent crime. There are many reasons. Among them is the lack of attention and, in certain instances, the impediments to community-based efforts to control the causes of crime. Throughout the country, there are people and groups in neighborhoods attempting to respond to the needs of the youths who commit the great proportion of violent crime.

- *House of Umoja* was founded in Philadelphia in 1972 by Sister Falaka Fattah as an "extended family" for youths and a place for mediating differences among warring gangs. Her intent was to compensate for "the massive disruptions in family life caused by black migration to the North," which she believed was the root of the gang warfare. Falaka

[11] Statement of C. Kenneth Orski, Urban Mobility Corporation, before a Forum on Alternatives to Public Service Delivery, U.S. Senate Subcommittee on Intergovernmental Relations, Washington, D.C., July 28-30, 1981.

Fattah attributes the success in dramatically reducing gang violence (from thirty-five deaths in 1974 to one in 1977) to the following:

— Decisions reached by youths on their own and as the result of peer pressure exerted through planned conferences and during requests for peace pledges and general discussion

— Concerned parents, both organized and unorganized, showing their love and taking more responsibility for caring for their children

— Sensitive media coverage exemplified by black journalists

— Community groups, such as Network, Southwest Parents, Black United Liberation Front, Mantua Community Planners, Nation of Power, Wynnefield Residents' Association, Neighborhood Crusades, and North Philadelphia Mother's Concern

— Black nationalist groups, such as the Nation of Islam, the House of Umoja, and the African People's Party

— The Crisis Intervention Network (established in April 1975) aided technically by the Youth's Services Commission and the Juvenile Aid Division of the Managing Director's Office[12]

Building on earlier research, the American Enterprise Institute is undertaking a study of models, such as the House of Umoja, that draw upon the abilities, knowledge, and incentives of individuals and community-based groups to address social needs that conventionally have been the domain of social-service agencies.

FIRE AND RESCUE SERVICES

Protection against fire has always been largely a private responsibility. Fire prevention depends principally on the practices of homeowners and businesses in avoiding the causes of fire, although municipal building and electrical codes also play a major role. Insurance against fire-related loss is almost exclusively private.

Historically, even the suppression of fires, which is the principal responsibility of fire fighting, was privately organized. Today, in many communities, fire suppression continues to depend heavily on volunteer efforts. Volunteer fire and rescue departments are still active in small towns and rural areas, but they tend to give way in urban areas to paid, government

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[12] Testimony by Sister Falaka Fattah, founder and chief administrative officer of the House of Umoja, before a Forum on Alternatives to Public Service Delivery, U.S. Senate Subcommittee on Intergovernmental Relations, Washington, D.C., July 28-30, 1981.

departments, where fire fighting is more complex. Nevertheless, some urban areas continue to have active volunteer forces, often as a supplement to paid fire fighters, and volunteer operations have become increasingly attractive as the cost of paid fire fighters has risen.

There are a few examples of fully private fire and rescue companies.

- *The Rural/Metro Fire Department* of Scottsdale, Arizona, is a widely publicized private company that provides fire-suppression services by contract to Scottsdale and several smaller communities at about half the national per capita cost of government fire departments. It does so principally by more sparing use of well-trained personnel, including the employment of part-time fire fighters who may also be local government employees, effective use of technology, and rigorous cost-consciousness, especially in the purchase and maintenance of equipment.
- *Falck* is a private, profit-making company providing fire, rescue, and motor vehicle breakdown services to 1 million families and 271 of the 279 municipalities in Denmark. It operates with 3,300 permanent and 1,200 part-time employees, 132 stations, 500 fire trucks, 1,000 ambulances, and specialized equipment for coastal and air rescue and diving and haulage operations. A minimum of government regulation permits the company flexibility in adapting equipment, training, and operating practices. The company's widely praised, high-quality, low-cost service apparently is attributable to a tradition of professionalism and the knowledge that governments and individuals could opt for alternative service.[11]

STRUCTURING PUBLIC SERVICES FOR PERFORMANCE

The private provision of services will be more efficient or more effective than government operation only to the extent that it is characterized by market structures and incentives that lead to higher performance. Such features include linking the cost and value of services through consumer purchases, competition that permits unsatisfied customers to take their business elsewhere, and appropriate scale of operations that permits economies associated with both largeness and smallness. These features can also be built into some public services.

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[11] Mark Frazier, "Private Alternatives to Public Services," *Transatlantic Perspectives*, No. 5 (July 1981), pp. 2-7.

USER FEES

Private firms are held accountable for performance chiefly by consumers, who, at the time of purchase, decide whether the service is worth the price. Firms that make what no one will buy, charge what no one will pay, or price too low to cover costs will soon go out of business. The key is that the purchaser and the consumer are one in the same and so can compare what they pay with what they get. In most government services, however, the purchaser is usually the government; the consumer is usually a number of citizens.

Financing public services through a user charge or fee based on the benefit received is not only a reasonable and equitable way of raising revenue but also a means of promoting greater attention to cost and quality. An individual, household, organization, or identifiable group of citizens that benefits from a government service should pay for the specific cost of that benefit. When the public benefits from a public service, that service should be financed by general revenues. Users generally pay directly for water and sewer service, refuse collection and disposal, and certain recreation services. Public transportation typically is financed by a combination of fares and subsidies, theoretically reflecting the distribution of benefits to the rider and to the public as a whole.

To be sure, not all public services lend themselves to user fees to cover either all or part of the service cost. However, such fees are frequently underutilized in services where they are applicable. There are a number of reasons for this: political resistance by service recipients, who naturally prefer free or subsidized service; administrative opposition from service agencies, which fear the accountability or loss of clients that might result; inadequate accounting procedures, which fail to isolate service costs and benefits; and concern that such fees would discriminate against low-income residents. But the only legitimate reason for underutilization is the last one. Measures can be taken to assure that no one is denied basic services by providing vouchers, direct subsidy, or permitting deferral of payment (e.g., charges levied against property could be delayed until the property is sold) for those unable to pay.

COMPETITION

A strong incentive for business to provide quality service at low cost is the option available to the unsatisfied customer to take his or her business elsewhere. Having two or more providers of a single service is hailed as the key to efficiency in the private sector and scorned as the clearest example of waste in the public sector.

For certain services, the competitive incentive of multiple providers will not compensate for the high cost of duplicate capital or operations; that is, a monopoly may be cheaper. However, some public services widely perceived to be natural monopolies could be broken up into competing service units. For example, some jurisdictions have more than one refuse collection district, with competitive bidding from private contractors for each district.[14] The potential advantage results, not from moving from public to private operation, but from instilling competition where the provider may have been benefiting from a monopoly position.

- In 1978, Montgomery County, Maryland divided its single urban refuse collection district of 59,289 households, which was served by a single private contractor, into nine districts serving between 6,000 and 10,000 households. Competitive bidding among private firms to serve the smaller districts reduced collection costs per household from $102.94 in 1978 to $87.60 in 1981, a 15 percent drop during a period of 26 percent inflation.

Competition comes not only in the bidding but also in the comparative performance of the different companies as they operate in adjacent districts. The key in such instances is whether recipients of the service have genuine options and can cause a revenue loss by depriving the provider of his or her patronage. Choice of service might be provided among service agencies in the public sector, in the private sector, or both.

APPROPRIATE SCALE

Large-scale operations can, in certain instances, reduce unit costs by more fully utilizing capital, technology, knowledge, or skill or by encompassing a more comprehensive production or service area that facilitates operations (e.g., for mass transit, water supply, and sewage disposal). During the 1960s, the desirability of creating metropolitan-wide governments was widely acknowledged, although political opposition to such proposals prevailed in all but a few cases. The need for public institutions that correspond to metropolitan service areas is all the more important today as the pressure grows for more efficient local services.[15]

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[14] See, for example, E. S. Savas, "Intracity Competition Between Public and Private Sector Delivery," *Public Administration Review*, Vol. 41, No. 1 (January-February, 1981), pp. 46-52.

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[15] In 1970, CED published a policy statement entitled *Reshaping Government in Metropolitan Areas*, which called for a two-tiered approach that recognized the need for institutions at both the metropolitan and the submetropolitan levels.

However, larger size in certain instances can also produce diseconomies, such as greater administrative overhead, lessened ability to draw on the competitive incentive of many firms, and greater distance of management from the point of service delivery. Such diseconomies are all the more likely in operations that do not have such precise and regular measures of performance as market prices and consumer purchases.

Smaller service districts offer the possibility for residents to choose the type, level, quality, and cost of service they desire. Because these districts are small, they generally have options for determining how the service should be provided. They might award a contract to a private firm on a competitive basis, contract with another government, form a consortium of governments, or provide the service directly. Having such a range of options instills competition in the provision of the service, whether the provider is the government or a private company. Smaller size also facilitates the monitoring of services at the point of delivery. Such districts can take several forms:

- *An administratively decentralized division* of a larger municipal or county public-service agency. The residents of the decentralized district could be offered a choice of the level of service at different charges.

- *Single-purpose neighborhood associations* established to provide one or more specific services for a fee. For example, a neighborhood in St. Paul, Minnesota that had previously contracted with numerous refuse haulers on a house-by-house basis agreed to contract collectively with a single hauler.

- *Deed-based homeowners associations* in which membership is automatically passed on with ownership of the home in order to avoid the problem of "free riders" who benefit from locally provided services but do not pay for them. The Community Associations Institute estimated the number of such associations, which charge their members an annual fee to provide such services as street maintenance, park upkeep, leaf removal, and snow removal, increased from 600 in 1965 to more than 20,000 in 1980.[16]

- *Special taxing districts* that are chartered to provide one or more services for which they can levy a tax on their residents. Such districts might encompass business areas or residential neighborhoods.

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[16]/ See Mark Frazier, "Privatizing the City," *Policy Review*, Vol. 12 (Spring 1980), pp. 91-109.

- *Incorporated municipalities* that provide a range of services to a restricted neighborhood, even though they are located within a larger urban area served by a full-service urban county government.
- *Condominium associations* that charge a fee to owners of individual units for the operation and maintenance of common elements.

Smaller districts within urban jurisdictions whose governments provide a full range of urban services most usefully provide such maintenance-type services as street, curb, and sidewalk construction and maintenance; snow removal; leaf collection; refuse collection; and maintenance of public trees, shrubs, parks, and gardens. Some districts also provide police patrol, recreational services, water supply, sewage disposal, storm water management, transportation, and some social services. They have the added advantage of providing a formal structure for decision making within the neighborhood, which can be useful for dealing with nonservice-related issues and for providing effective representation of the neighborhood at higher levels of government.

CHAPTER SIX

THE BUSINESS ROLE IN COMMUNITY AFFAIRS

Business corporations have long recognized that their individual success is closely linked to the economic and social health of the nation as a whole. Corporate philanthropy reflects that recognition. The social turmoil of the 1960s led businesses to expand their concern with corporate social responsibility beyond philanthropic contributions to include other ways in which corporations affect social and economic conditions. Ten years ago, this committee stated:

> Social consciousness and good citizenship, while important prerequisites, cannot realistically be expected by themselves to bring business resources to bear on the country's social problems on the massive scale that is needed. . . . [T]he incentive for profit is the only practicable way of unleashing the power and dynamism of private enterprise on a scale that will be effective in generating social progress.[1]

We reaffirm the convictions expressed in that statement, and we believe the experience of the past decade has demonstrated the opportunity for practical business involvement. Certainly, changing conditions in the country today make such involvement all the more important, especially within the communities where corporations do business.

REASONS FOR CORPORATE INVOLVEMENT

The results of a 1980 Conference Board survey of 587 corporate executives with regard to their involvement in local economic development confirm the interest of business leaders in the condition of their communities.[2]

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[1] *Social Responsibilities of Business Corporations* (New York: Committee for Economic Development, 1971), p. 51. Related CED reports include *A New Rationale for Corporate Social Policy* (1970) and *Measuring Business's Social Performance: The Corporate Social Audit* (1974).

[2] Linda Wintner, *Local Involvement of the Corporation in Headquarter[illegible]ed Branch Site Communities* (New York: The Conference Board, 1980).

More than nine out of ten respondents reported that their companies have been active in efforts to assist their local governments or communities in solving urban problems.

Why does business get involved? The major reasons range from a belief that it is part of doing business to a positive means of building public image. Companies may provide benefits to employees, such as education grants, in order to retain personnel. Some corporations contend that local giving ensures a better response to local needs. They regard this approach as preferable to what is viewed as potentially inappropriate federal intervention. Public evaluation of investment decisions and better information about the consequences of those decisions have prompted businesses to be more conscious of the environment in which they operate.

Where companies are particularly rooted to a location by tradition or for economic reasons, they have a special interest in promoting the health of the economy generally and the vitality of the business climate specifically. It has been increasingly accepted among business managers that what benefits the community in which the firm operates also benefits the firm. Whether and how much those benefits outweigh the costs to the firm is, of course, still a matter of the individual company's judgment. Finally, there is a feeling that business is now operating in a more receptive climate than existed in the recent past. Public dissatisfaction with government, manifested in citizen initiatives to place ceilings on taxes and in the 1980 elections, suggests both opportunity and responsibility for the private sector.

CORPORATE ORGANIZATION FOR PUBLIC INVOLVEMENT

Corporate organization for public involvement can take an endless variety of forms according to the size, line of business, and individual needs of the firm. Whatever specific form it takes, corporate involvement in the community has implications for corporate organization from the office of chief executive on down. For example, Reginald Jones, recently retired chairman of General Electric, stated in a speech that in his last few years as chief executive officer, he gave half his time to public affairs. By such action, he exemplified the philosophy he often expressed:

> Public policy and social issues are no longer adjuncts to business planning and management. They are in the mainstream of it. The concern must be pervasive in companies today, from boardroom to factory floor. Management must be measured for performance in economic and noneconomic areas alike. And top management must lead.[1]

The growing amount of time given by chief executive officers to public involvement is a product of the increased impact of the external environ-

[1] U.S. Department of Commerce, *Business and Society: Strategies for the 1980's*, Report of the Task Force on Corporate Social Performance (Washington, D.C.: U.S. Government Printing Office, December 1980).

ment on the business corporation. Environment in this sense means everything from action groups in the neighborhood surrounding the company's plant through crime and urban economic development up to federal regulation and national and international economic and social policies. Both the short-run and the long-run effects of such environmental forces should attract the attention of top corporate officers.

Policy making for corporate public involvement should be integrated into the business-planning function. Understanding and taking account of the complex external environment as part of overall business strategy and of the management of corporate resources are of increasing practical importance to corporations. Corporate involvement in influencing that environment has, in turn, become more complex. Promoting the interest of the community is no longer seen as a peripheral exercise of good citizenship involving no more than annual philanthropic contributions or a matter of corporate social responsibility, a concept that implies a greater benefit to society than to the corporation. Rather, it is seen as a legitimate part of the corporation's long-run self-interest to which a variety of corporate activities and resources ought to be addressed. John H. Filer, chairman of Aetna Life and Casualty, explains his company's experience.

> The practice of corporate social responsibility is no longer simply an expression of "doing good" with no responsibility attached for the qual-

CORPORATE PUBLIC INVOLVEMENT

- The principal function of the business corporation is to produce goods and services in a manner that will provide for an expanding base of production, thereby making it possible for society to support improvements in its life-style.
- Corporations must balance the interest of several constituencies, including customers, suppliers, stockholders, employees, the local community, and society in general.
- The corporation's economic success depends on the well-being of the communities in which it does business. The corporation's survival and health in the long run depend on the endurance and well-being of the society in which it exists, however defined (i.e., local, regional, national, or global).
- As powerful institutions that both benefit from and affect society, corporations should be leaders in the actions taken by society to address social issues.

ity of one's decisions. Experience has taught us that in addition to helping others, the pursuit of social goals can significantly strengthen a corporation's capacity to achieve its primary corporate purpose of being profitable. Aetna's continuing challenge, which is common to all corporations, is to merge the pursuit of social goals into our business planning and day-to-day operating priorities.[4]*

Some major firms are charging a senior executive officer (at least a vice president and often a senior vice president or even a vice chairman) with broad responsibilities for the area of public involvement. Reporting to or through this officer are such corporate activities as community affairs, policy analysis, lobbying, public relations, and sometimes legal affairs, advertising, consumer affairs, and even strategic planning. Most of these are functions whose heads have traditionally insisted that they needed to report directly to the CEO in order to be most effective. Grouping all these functions under one senior officer has several advantages: It lightens the burden of numerous officers reporting to the CEO, encourages greater coordination among the activities of these related departments, and provides another senior officer who has a broad-enough range of responsibilities and information to help evaluate the environmental impact on the corporation, the opportunities presented, and the potential trade-offs in corporate decisions. In some instances, this type of organizational structure has been focused primarily on community-level public affairs; in others, it emphasizes mostly national business, economic, and political concerns. The primary motivating force behind this structure does not seem to be the external issues so much as the CEO's need for more help and support for his own activities in this field. **Although precise organizational relationships will vary according to the nature and purpose of the firm, the several functions related to public involvement or the external environment should be closely coordinated, assured the regular attention of the chief executive officer and other top management, and addressed as part of the overall corporate planning and management process.**

The practice of regarding corporate philanthropy and social responsibility as tangential activities not requiring operating-management disciplines undermines the effectiveness of corporate public involvement. In a period when resources for public purposes are scarce, every dollar should be used to its maximum benefit. **Those units of the corporation which are charged with public involvement should be required to establish clear objectives based on the corporation's assets and goals and a knowledgeable assessment of community needs and should be held accountable for the results they achieve.** Their performance needs to be professionally con-

[4] U.S. Department of Commerce, *Business and Society: Strategies for the 1980's.*

*See memorandum by FLETCHER L. BYROM, page 103.

ducted and periodically reviewed, from the development of initiatives to the follow-ups, to assure that the corporation's investment in the community maximizes its potential.

Corporations employ specialists in production, finance, marketing, law, public relations, and other aspects of corporate activity. Firms that have become serious about public-involvement activities have discovered that they need people knowledgeable in the field. **Making use of relevant expertise in politics, government, economic development, and community action can reduce the hazards of public involvement and increase the likelihood of success.**

Two elements important to successful public-involvement efforts at the local level are commitment from executive leaders and incentives for employees such as recognition and career enhancement. Corporations can encourage staff to be involved in the community. But involvement in this case needs to be more than just attendance at community functions; employees should demonstrate how their personal participation contributed both to the corporation and to the community. Conventional management incentives can be useful, but they should be supplemented by other incentives. Awards are one form of recognition, but the true test of corporate commitment comes when the building of community relationships is a factor in consideration for promotion. **Second-echelon corporate executives should be motivated to be more actively involved in public affairs by corporate policy that bases their career advancement in part on their effective performance.**

Manufacturing and nonmanufacturing firms are likely to use their resources differently. Nonmanufacturing firms, such as banks, department stores, and insurance companies, typically have strong local ties and frequently have become very involved in community affairs. Reasons including loyalty to the community, capital investment, and scrutiny by citizens have prompted these institutions to seek new means of becoming more integrated into the economic and social fabric of their communities.

Manufacturers serving regional and national markets from scattered plants typically have centralized their public-involvement efforts. The community in which the headquarters is located is likely to receive particular attention, especially with respect to philanthropic decisions. This explains some of the success of Pittsburgh; without its strong corporate hub, that city might have been destined for serious decline. It also explains some of the success of the Twin Cities. Relatively few multiplant manufacturers delegate public-involvement authority to field operations. There are exceptions, however.

- At General Electric, the practice is to assign responsibility for community affairs in its various plant locations across the country to its highest ranking local operating manager in each area. In some 16 locations, which involve several organizational components with line reporting channels that do not converge in a single manager headquartered at that location, a Resident Officer has been assigned top responsibility for community affairs in that location.
- Chevron/U.S.A., a domestic subsidiary of Standard Oil Company of California, has an extensive community affairs program that includes thirty-five branch offices in the areas where Chevron has major plants or offices. The field public affairs officers report directly to the top operations officer in that field installation, although they also take guidance from the public affairs–community affairs head office in San Francisco.
- Levi Strauss and Company has community involvement teams, which are groups of employees who combine volunteer time and company time to solve community social problems, located wherever it has plants and distribution centers throughout the United States and in twelve locations in their international group.[5]

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[5] Thornton Bradshaw and David Vogel, eds., *Corporations and Their Critics: Issues and Answers to the Problems of Corporate Social Responsibility* (New York: McGraw Hill Book Company, 1981), p. 136.

CONSIDERATIONS IN CORPORATE ORGANIZATION FOR PUBLIC INVOLVEMENT

- Establish a process for planning and coordinating public-involvement decisions.
- Integrate management of the public-involvement function into the corporate management structure by placing accountability for its success with the chief executive officer, senior management, and line officers. Base career advancement in part on effective performance as measured against stated public-involvement objectives.*
- Establish management standards to govern corporate contributions and community ventures.
- Assure the use of appropriate expertise related to community activities.
- Hold branch operations responsible for similar involvement in the communities in which they are located.**

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*See memorandum by H. J. HEINZ II, page 101.

**See memorandum by CHARLES KELLER, JR., page 103.

OPPORTUNITIES FOR CORPORATE INVOLVEMENT

The effectiveness of corporate public involvement depends in large measure on the type of corporate resources employed, the level of use, and the effectiveness with which those resources are used.

Corporations have more than money to give. Their resources also include the company's personnel, facilities and services, reputation and leadership, and business investments and operations. All these have been used successfully by corporations, as examples throughout this statement show.[6]

Each of these resources can also be used in varying degrees. The level of financial contributions is the easiest to quantify, but larger efforts in the use of the other types of resources are equally as important.

Of course, the type and level of resource use will count for little if the committed resources are not used effectively. Effectiveness requires first selecting appropriate targets that are both important to the community and related to the corporation's goals and capabilities. Then the best means of achieving that target, whether through direct corporate action, contribution to another organization, use of intermediary organizations, joint action with other business, or some other form of partnership arrangement, must be selected. Finally, effectiveness requires monitoring the activity to assure performance and possibly providing the technical and financial assistance that may be required for the implementing organization to get the job done. Monitoring also includes periodic evaluation to assess the overall effectiveness of the corporate public-involvement effort.

CORPORATE OPERATIONS AND INVESTMENT DECISIONS

Many business decisions can benefit the community as well as the company. Such ventures involve the traditional profit orientation of business but provide more than just economic benefits. These projects can

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[6] The Conference Board, SRI, International, and the Committee for Economic Development have all undertaken research to learn the depth and scope of business involvement in public affairs. The Conference Board study, as we noted earlier, obtained information from 587 firms on how they participate in local economic development. SRI, International, interviewed 45 chief executive officers and contributions managers to determine the reasons for and types of their involvement in the community. A second report focused on investment decisions made for urban ventures. Many of the examples used here are drawn from John McGwire and Thomas Fletcher, *Corporate Social Investment: An Urban Opportunity*. Proj. URU-7723 (Menlo Park, Calif.: SRI, International, February 1979). William Grindley suggested a framework for identifying types of corporate activities in *Making and Measuring Corporate Urban Ventures* (Menlo Park, Calif.: SRI, International and The Conference Board, June 1980). CED, in addition to its in-depth studies of the relationship between the public and private sectors in seven cities, surveyed 200 trustees to generate case examples of corporate community-oriented practices.

utilize a variety of institutional arrangements, including or excluding government:

- Thirteen companies joined to form the City Venture Corporation in Minneapolis–St. Paul. City Venture is a profit-making (and therefore dividend-paying) corporation and has joined the effort spearheaded by Control Data Corporation to operate profitable inner-city plants, provide part-time and flexible-time employment on a large scale, create jobs at a lower cost than is normal for industry, and stimulate the formation of other small companies.

- General Mills was involved in a revitalization effort in a declining neighborhood in Minneapolis that led to the provision of 800 apartments for low- and middle-income people. This project, Stevens Court, is an example of an effort that is designed to be self-sustaining. General Mills looks for projects that have nationwide implications and offer the potential for becoming financially self-sufficient.

- The Prudential Insurance Company has a company-wide purchasing program designed to increase the percentage of goods and services the company purchases from minority vendors; its Community Affairs Division helps the corporate and regional home offices to identify and deal with qualified minority business and professional people.

- Equitable Life Assurance Society formed the Equico Corporation, a minority enterprise small business investment company. Equico is now able to make venture capital loans of up to $1 million.

CORPORATE LEADERSHIP AND REPUTATION

By lending its name to a program, a corporation can guarantee visibility and legitimacy for the beneficiary.

- Chicago United is a consortium of twenty-two major companies headquartered in Chicago and a comparable number of minority business and professional leaders. Task forces are established in areas of primary concern such as education, justice, and public safety to undertake studies and coordinate implementation of recommendations.

LOANED MANPOWER

Loaned-manpower arrangements are sometimes used to respond to a specific limited community problem. Other efforts may require the extended involvement of top corporate personnel.

- Metropolitan Life lends its financial and accounting executives to Minority Equity Capital Company in New York, which has over $4 million in capital assets.
- The Cincinnati business community sent eighty engineers into the educational system to help with financial management, energy conservation, food services, maintenance, and computer operations. The energy conservation program alone involved 300 public buildings.
- The Economic Development Council of New York has a long history of providing executive and technical personnel from member companies to address such critical community concerns as improving education and reducing the time delays in the municipal court system.

CORPORATE FACILITIES AND SERVICES

Facilities and services are provided by many firms.

- Syntex provides its Palo Alto, California conference center, which includes an auditorium, six conference rooms, and food-service facility to community organizations when it is not scheduled for company use. The center has been used for a community child-care conference, a meeting of city housing officials, an affirmative action conference, a community college film series, a meeting of industrial nurses, a session of the county human relations commission, two university alumni club annual meetings, a flower and garden show, a symphony fund-raising event, a high school PTA program, a Chamber of Commerce social meeting, a hospital staff meeting, a Little League luncheon, and a fund-raising event for a state environmental organization.[7]
- General Electric's Cincinnati plant has provided training to local police on citizen and community relations.
- In Washington, D.C., major corporations, including General Motors, Control Data, and Marriott, are working with the board of education to develop plans for career high schools that would draw on the technical and professional expertise of the firms to provide specialized, career-oriented training in such fields as engineering, computer sciences, and hotel management.

CORPORATE FINANCIAL CONTRIBUTIONS

Corporations regularly use their charitable contributions to address community needs. During the 1930s, corporate giving amounted to 0.4

7/ Frank Koch, *The New Corporate Philanthropy* (New York: Plenum Press, 1979), p. 65. Koch cites this example of a corporation's contributory use of its company facilities as one of "Fifteen Ways to Provide Valuable Support Without Making a Cash Contribution," pp. 58–67.

percent of net profits. In 1935, an amendment in the Internal Revenue Code permitted corporations to deduct charitable contributions up to 5 percent. This change had a modest impact on corporate giving.[8] Since the 1960s, corporate contributions as a percentage of pretax net income have remained at about 1 percent. Fully 80 percent of these contributions goes to health, welfare, and education, with the rest allocated to the arts and other civic activities. In 1980, corporate contributions amounted to $2.55 billion, representing 5.3 percent of overall private giving. Individual donations, traditionally the largest source of contributions, amounted to $39.93 billion (83.7 percent), with the remaining funds coming from bequests and foundations.

The impact of the Economic Recovery Tax Act of 1981 on corporate giving is likely to be mixed.[9] The substantial reduction in corporate tax rates will increase the cost of giving to corporations for each dollar of contribution. New depreciation deductions, research tax credits, and the opportunity to shift tax burdens to firms with losses will eliminate the tax liability of some firms, thereby diminishing the tax-related incentive for charitable giving. However, the act raises the maximum allowable deduction for charitable giving from 5 to 10 percent of pretax profits, and the lower tax liability presumably will increase the resources available to firms from which contributions would be made.

Whether there is an articulated company policy for philanthropy, a formal contributions department, a foundation, and/or an official set of operating procedures seems to depend on several factors. Among these are the company's relationship with community leaders, its intercorporate affiliations, the size of the firm, the nature of the product, and the company's perception of its role in the community. Scale plays an important role, with

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[8]/ In the 1953 landmark A. P. Smith case, the New Jersey Supreme Court upheld the right under common law of a manufacturing company to contribute funds to Princeton University. The court held that it was not just a right but a duty of corporations to support higher education in the interest of the long-range well-being of their stockholders because the company could not hope to operate effectively in a society that is not functioning well.

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[9]/ The picture is equally mixed for individual giving. Lester Salamon of The Urban Institute estimates the 1981 tax act is likely to accelerate the downward trend in individual giving that began in the early 1970s. He further estimates that the composition of individual giving will shift from the affluent to middle- and lower-income groups, thereby also shifting contributions away from education, welfare, health, and the arts favored by the former to religious institutions supported more heavily by the latter. Lester M. Salamon, "The Reagan Economic Recovery Program and the Nonprofit Sector: An Overview" (Paper prepared for The Urban Institute, Washington, D.C., October 1981), p. 19.

An alternative and more positive interpretation of the impact of the 1981 tax act is that over time the reduction in marginal tax rates with respect to unearned income and capital gains will more than compensate for the reduced tax incentive for giving and that this, coupled with the ability of all individual taxpayers to take deductions for contributions, will increase overall private charitable contributions.

large corporations apparently more willing to take risks and become pacesetters.

Among America's larger cities, Minneapolis–St. Paul presents an unparalleled picture of corporate leadership. Locally established business organizations, such as the Minnesota Five Percent Club and the Minnesota Project on Corporate Responsibility, may serve as a model for encouraging higher levels and effective use of corporate giving. Although the Minneapolis pattern remains unique, the intensified pressure on the private sector, especially on the business community, promises a renewed corporate search for how best to organize response to public needs. Kenneth Dayton, chairman of the executive committee of the Dayton Hudson Corporation, recently said:

> America's new beginning challenges all America—but business in particular—to back up its rhetoric with hard dollars where support for voluntary initiative is concerned. . . . [I]f business launches a concerted effort nationwide to commit more corporate resources to solve local problems—and if those resources are properly leveraged with focus and personal involvement—then we can truly launch a new beginning for this nation.[10]

INTERMEDIARY ORGANIZATIONS

Corporations often find it effective to work through intermediary organizations. Smaller businesses, which lack the financial and staff resources of large corporations, may be more effective by working through intermediary organizations that can pool and leverage their contributions. Traditionally, businesses have participated in United Way campaigns to respond to community needs. In recent years, however, many companies have chosen a more active role either through direct involvement or by creating a new enterprise or affiliating with an existing intermediary organization. (For examples of such intermediary organizations, see Chapter 4.)

INTERCORPORATE ORGANIZATIONS

Corporations can increase their influence by joining with other firms in either formal joint ventures or informal understandings. By creating an expected level of involvement for all companies, bolstered by peer pressure and example, these organizations can broaden and deepen the base of corporate support for community activities.

- Percent clubs, spawned by the success of the Minnesota Five Percent Club, are now being developed in Louisville, Seattle, and Baltimore.

10/ Kenneth Dayton, "Will Business Fill the Gap that Budget Cuts Create?" *The Washington Star* (Washington, D.C., March 1981).

Such clubs vary in the percentage goal, generally starting with 2 percent and seeking to achieve 5 percent, and they do not pool their resources.

- Baltimore's "Blue Chip In" is a unique arrangement developed by a civic-minded business community in response to concern over withdrawal of federal funds. This represents more than an intercorporate arrangement and could better be described as a partnership with government.
- In Cleveland, corporations and the city government use a neutral forum, the Cleveland Foundation, to help mediate and respond to city needs.
- The Chicago 21 Corporation was formed by leading business people in Chicago to aid in the development of Dearborn Park, a downtown residential complex for middle-income families. To finance this effort, a 6.5 percent limited-interest entity was created. It was capitalized with an average $500,000 per investor. In 1978, the Dearborn Park Corporation absorbed the functions of the Chicago 21 Corporation. As of 1981, the development contained 931 completed units (townhouses, condominiums, rental units, and special units for the elderly) and was expanding its original plan to include new high-rise and mid-rise apartments. Dearborn Park owes its initiative to Chicago's business commu-

BUSINESS LEADERSHIP IN MINNESOTA

The Minnesota Five Percent Club was established in 1976. Friendly but vigorous peer pressure is placed on the corporations in the Twin Cities to take maximum advantage of the 5 percent pretax profit contributions mechanism. No attempt is made to coordinate contribution programs; each corporation retains its own program. In 1980, there were forty-five firms in the Twin Cities giving at 5 percent. Moreover, this extraordinary level of social commitment extends beyond utilizing the 5 percent giving power to its fullest. Beginning in 1977, a group of Twin Cities executives organized a conference on corporate social responsibility that led to the formation of the Minnesota Project on Corporate Responsibility. The project sponsors a series of two-day courses, held five times a year, on corporate responsibility. Subjects on the agenda include the business environment; obligations to stockholders, customers, employees, the community; and how business can organize itself to become involved in public policy formulation and implementation.

nity and the working partnership established with the city and the community. This effort is notable for several reasons: the limited-interest arrangement, which emphasizes civic improvement over maximizing individual profits; the breadth of participation from the business community; and the successful development of new middle-income family-oriented housing in the downtown area on land that had formerly been deteriorated railroad and industrial property.

SUMMARY

There is a wide range of approaches a corporation can use for more effective public involvement. What makes the critical difference, however, is not the structure but the leadership, staff, and ultimately, the commitment to defined goals. Without sincere and regular participation from the executive leadership, a corporation's program for community enterprise is virtually certain to fall short of its goals. Personnel responsible for public involvement need to have regular access to both top management and to the other operations of the corporation. People who staff this function need to be familiar with, and involved in, community activities. Their job should have the same recognition as other, more explicitly profit-oriented positions. If the corporation has a philosophy that its success and that of the community are interdependent, the commitment to that philosophy must move from the top to other levels of the organization.

However, two cautions should be observed in establishing and carrying out a strategy for corporate involvement. *First, although business can provide leadership and even direction, the community interest ultimately is defined through the political process; corporate actions that conflict with this interest can undermine other community efforts.** *Second, the corporate activities selected to promote the community interest must be in keeping with the responsibility of the corporation to its stockholders, employees, and customers.* To balance and to reconcile the needs of both the community and the firm are the challenge and the opportunity for business in public-private partnership.

*See memorandum by W. D. EBERLE, page 101.

CHAPTER SEVEN

THE NATIONAL CONTEXT FOR LOCAL PARTNERSHIP

The practical examples provided throughout this statement demonstrate the potential for local initiative. However, although that potential is substantial, it is nonetheless affected by external forces over which the local community has no direct control.

SHIFTING ECONOMY

When the national economy was growing rapidly and urban populations were expanding through both in-migration from rural areas and high rates of natural population increase, it was possible for most cities to expand the scale of their economic activity, population, and tax base. This, however, is no longer the case.

The declining rate of economic growth and the dramatic slowdown in productivity gains that occurred throughout the 1970s are evidence of underlying structural difficulties in the economy. The nation's balance of trade deteriorated badly during that decade both from the increased cost of energy imports and from the declining international competitiveness of

some U.S. products. Some of the nation's major manufacturing industries, which are critical components of the economic bases of many urban areas, have experienced precipitous declines in sales and employment, and the ripple effects of these contractions have been felt in other industrial sectors. Compounding these trends has been the seeming intractability of inflation.

Another significant development is the trend toward redistribution of economic activity among the nation's regions, with older industrialized areas of the country experiencing losses to the South and Southwest. More and more, regions appear to be in competition for firms, capital, and entrepreneurial talent.

Urban areas, too, are increasingly in competition with the nonmetropolitan areas of their own region. Many urban areas, particularly larger cities in the industrial Northeast and Midwest, are now experiencing a loss of population to nonmetropolitan areas. During the period from 1970 to 1980, metropolitan areas grew 10.2 percent while areas outside of metropolitan areas grew 15.1 percent. Thus, for the first time since the first national census was taken in 1790, nonmetropolitan growth exceeded metropolitan growth. In addition, over the past ten years, population in the United States has shifted from the North and East to the South and West and from central cities to suburbs.

DIMINISHING FEDERAL ROLE

The substantial reduction in federal grant-in-aid programs proposed in the fiscal year 1982 accelerates a trend that began in 1978. Federal grants as a percentage of state-local expenditures peaked in that year at 26.7 percent, dropping to 23.6 percent in fiscal year 1981.

Nonetheless, the federal government's influence will not be rendered neutral simply by diminishing or eliminating programs formally labeled "urban" or grants to state and local government. In 1977, CED issued a policy statement entitled *An Approach to Federal Urban Policy*, which described a complex urban environment requiring a more comprehensively conceived and selectively applied federal policy. It observed that the effect of federal actions, including fiscal, monetary, trade, tax, and regulatory policies as well as grant programs, on local communities is pervasive and inescapable.

Even federal economic policy that is theoretically macroeconomic in intent in fact affects different regions of the country in different ways. Fiscal and monetary policies designed to stimulate national economic growth may prove beneficial in a region experiencing economic stagnation but inflationary in a region at full capacity; conversely, policies to curb inflation

by dampening economic activity may be beneficial to regions with overheated economies but prove crippling to those suffering high levels of unemployment. Exchange rate and trade policies designed to assist one sector of the economy may unintentionally harm other industries and the regions in which they are concentrated.

The federal government will continue to play an important role in urban development even as it diminishes its direct funding and as state and local governments strive to become more self-reliant in meeting their own needs. In fiscally hard-pressed cities, local governments are limited in their ability to provide the mix of public investment and private incentives necessary for effective participation in partnerships with their private sectors. Federal assistance to economically and fiscally distressed cities through programs with sufficient flexibility to respond to unique local needs may be necessary for effective local government participation in development partnerships. Whatever the level of financial support, the federal government will also continue to have an impact on the structure and functioning of state and local governments.

To the extent that greater responsibility is shifted from the federal to the state and local levels, it is in the national interest to assure that state and local governments have the fiscal, legal, structural, and managerial capabilities needed to handle that responsibility. This is all the more important if local governments are to assume a key role in economic revitalization.

EMERGING STATE ROLE

As the federal government diminishes its role, more responsibility will fall to the states. For example, primary responsibility for subnational economic development will devolve from the federal to the state governments. Beginning in fiscal year 1982, federal economic and community development assistance will be distributed both directly to urban governments and to the states, which will administer assistance to smaller communities.

Pressure on state government will also come from the other direction as local governments turn to the states for financial assistance to compensate for reduced federal grants. The increasing fiscal burden on state governments is a trend of long standing. In 1954, the state share of all state and local revenues was 42 percent; but by 1979, that share had grown to 61 percent. As creatures of the state, local governments will also look to the legislature to change or otherwise compensate for inadequate legal, fiscal, and administrative structures imposed on them by the states. **We urge governors and state legislatures to recognize the potential for public private**

partnership at the local level and to support such partnerships as a means of dealing with problems that are now, or will soon become, state responsibilities.

The trend toward a stronger role for state government does not bode well for the old industrial cities, especially given the imminent redistricting of state legislatures, which will shift power away from central cities to outlying jurisdictions. Nor is the growing preeminence of the states viewed positively by larger local governments, which fear the strengthening of another layer of government, especially where state administrative ability is felt to be below that of the larger subdivisions.

The growing importance of the states is also reflected in the greater attention of private groups and organizations to state-level activity. Examples include the California Roundtable of businesses and the more recently established Minnesota Business Partnership. Businesses in several other states are planning similar organizations with a statewide business focus on public affairs.

In recent years, most state governments have shown marked improvement in their structure, financial management, and administration. In fact, some state governments have been leaders in developing new approaches to public problems, confirming their value as "laboratories of democracy." However, few states are prepared for the substantial new burdens and responsibilities that are descending on them. Tensions among regions within states, within metropolitan areas, among urban, small-town, and rural areas, as well as competition among interest groups whose traditional focus has been either local or national, can be expected to occupy the attention of governors, state legislatures, and state administrators in the years ahead. Although this policy statement concentrates on public-private partnership at the local level, many of the opportunities and approaches discussed are equally applicable at the state level. **We urge state governments and those individuals and organizations in the private sector whose concerns transcend exclusively local affairs to recognize the need for public-private partnerships at the state level.**

CHANGING FEDERALISM

The federal system today is congested, confusing, and incapable of doing the job demanded of it. But there are legitimate differences about which responsibilities and tax sources are appropriate to the various levels of government, as well as about how those levels can best work together.

Although we have not addressed these issues in this statement, they are critical to public-private partnership at the local level.

No matter how the issue of sorting out functional responsibilities, roles, and revenue sources among the levels of government is resolved, each level of government will continue to be involved to some degree in the major problems facing American communities. Better arrangements for intergovernment management will be required if scarce public resources are to be used effectively, the more so when they are used in partnership with private resources.

THE RELATIONSHIP OF FEDERALISM TO PUBLIC-PRIVATE PARTNERSHIP

Federalism and public-private partnership are directly related. The former is concerned with the roles of the various levels of government, vertically arranged among the federal, state, and local levels. The latter is concerned with roles of the public and private organizations horizontally arranged at each of those levels. Roles and responsibilities are changing simultaneously among the levels of government and among the public and private organizations at each of those levels. For example, the ability of local government to handle the greater responsibilities delegated to it by the federal or state governments will depend in part on what share of that responsibility is assumed by the private sector at the local level.

President Reagan recognized this relationship in establishing his Task Force on Private Sector Initiatives in October 1981. This group, which is made up of members from both the public and the private sectors at all three levels of national activity, will advise the President on "methods of developing, supporting, and promoting private sector leadership and responsibility for meeting public needs."[1] Within the federal government, HUD has also given specific attention to ways of fostering public-private partnership at the local level.

Other national organizations have undertaken programs in recognition of those changing roles.

- The National Alliance of Business (NAB), itself a partnership of business, labor, and government, is working to solve the unemployment problems of economically disadvantaged Americans. A major focus of NAB are the Private Industry Councils (PICs), which are composed of representatives of business, local government, organized labor, community-based organizations, and education.

1/ "President's Task Force on Private Sector Initiatives," Executive Order 12329, October 14, 1981.

- The National Association of Counties has established the Alliance of Business and Counties (ABC) program to foster public-private cooperation in counties.

- The United States Conference of Mayors is sponsoring the Triangular Partnership program, which encourages cooperation among city governments, local businesses and foundations, and neighborhood organizations.

- The National League of Cities has sponsored meetings with its state municipal leagues, private-sector representatives, and state development agencies to discuss common interests shared by the business community, state, and local officials.

- The insurance industry has taken steps to improve the effectiveness of its members' contributions at the local level. The American Council of Life Insurance and Health Assurance Associations of America created the Community Initiatives program to provide technical assistance and information to help stabilize or revitalize communities. In November 1981, the insurance industry's Clearinghouse on Corporate Social Responsibility changed its name to the Center for Corporate Public Involvement to reflect expanding corporate interest in solving economic and social problems.

- The U.S. Chamber of Commerce regularly provides information to its members on how businesses can assist local governments. Recent examples include *Improving Local Government Fiscal Management: Action Guidelines for Business Executives*, and *Citizens' Review of Federal Spending: An Action Plan for Communities*, a book that addresses the question of how local areas can adjust to federal budget reductions.

THE NEED FOR COORDINATION

Coordinating public and private resources at each level of national activity and among those levels will require improved management of existing arrangements or new, more effective relationships.

One example of a new approach that has been tried experimentally is the Negotiated Investment Strategy (NIS), which is designed to develop coordinated strategies for investing federal, state, local, and private resources in urban communities.

The NIS procedure starts with the designation of three negotiating teams representing the public and private sectors of the city, the state, and the federal government. Each team develops objectives and proposals independently. Working with a neutral mediator, the three teams then explore areas of potential agreement in objectives and priorities. Negotiations continue until specific agreements are reached or the participants conclude that agreement is not possible.

The NIS process has been implemented in St. Paul, Minnesota; Columbus, Ohio; and Gary, Indiana. In reviewing the St. Paul experience, CED's Subcommittee on Urban Revitalization concluded that where tangible agreements could be reached, the NIS approach can encourage private-sector involvement in urban revitalization efforts by demonstrating a public-sector willingness to cooperate and a concern about the investment climate of the city.[2] Although the overall reaction of the Subcommittee members to NIS was favorable, they cautioned that the process requires certain preconditions to work well, such as a tradition of public-private interaction at the local level, an effective mayor, and a skillful mediator.

Even when not all these preconditions were present, however, NIS proved to be a useful process. For example, in Gary, which had a history of less-than-cooperative relations among the city government, the state of Indiana, and U.S. Steel, a forum was created where those parties could air their differences in frank bargaining sessions. Compromises were reached whereby the state allowed the city to issue bonds for development purposes for the first time in twelve years. U.S. Steel agreed not to oppose the bonds so long as their issuance would not unduly increase the firm's local property tax burden. Through the NIS process, the parties agreed that the primary goal was an expanded tax base and that the development must have the long-term effect of lowering U.S. Steel's share of local tax payments.

THE ROLE OF LOCAL GOVERNMENT

However the issues of federalism are resolved, there is no question that local governments will have to bear greater responsibility for dealing with their own circumstances. Some economic factors are beyond the control of

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[2]/ "The Negotiated Investment Strategy: A Review of the Concept and Its Implications for Revitalizing Cities," a report by the Subcommittee on Revitalizing America's Cities (New York: Committee for Economic Development, 1980). This study was financed by the Charles F. Kettering Foundation as part of its broader effort to develop and test the Negotiated Investment Strategy concept. Supporting roles in developing the NIS have been played by the Ford Foundation, the U.S. Department of Housing and Urban Development, and community and regional foundations in the demonstration sites.

local communities, but others are not. Every urban community possesses substantial economic resources, the inefficient use of which is at least partly attributable to problems that are either locally caused or otherwise subject to local solution. Moreover, capital and labor are increasingly mobile and attracted to areas with amenities that can be provided or improved through local initiative. To the extent that local communities achieve greater flexibility within from federal and state restrictions, their potential for initiative is increased.

According to a recent survey, although most corporate leaders believe that local governments rather than the states or the federal government should take the responsibility for maintaining the quality of life in the nation's urban areas, a majority also have doubts about local government's capacity to play this role effectively.[1] Such views, whether or not they are accurate, should be of concern to local government, but they should also be a signal to private-sector leaders to assist local governments in developing the capability required to confront the challenge ahead.

In the future, the interests that bind the public and private sectors in American communities will be stronger than those that divide them. This circumstance creates both the opportunity and the need for partnership.

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[1] *Business/Government Cooperation for Urban Economic Development* (unpublished survey), U.S. Department of Housing and Urban Development, 1981.

MEMORANDA OF COMMENT, RESERVATION, OR DISSENT

Page 1, by H. J. HEINZ II

This "Introduction and Summary of Conclusions," while designed for quick and easy reading, does not lead to an adequate understanding of the importance of the proposals. I strongly urge that this report be read in its entirety.

Pages 6 and 85, by H. J. HEINZ II

While it is desirable to evaluate the performance of senior managers involved in public affairs, it is unrealistic to put such stress on strict accountability. Success in this area is often subjective and not susceptible to measurement by conventional management criteria.

Pages 7 and 92, by W. D. EBERLE, with which CHARLES KELLER, JR. has asked to be associated

The success of the statement's excellent recommended programs is based on a simple caution that "the community interest ultimately is defined through the political process. . . ." This cannot be taken lightly. Businessmen, government officials, and the public must understand and support the objectives of any particular program. Building this consensus takes leadership, patience, and political will. These programs will not happen unless the democratic political process is recognized and used by all parties to build the consensus to support and implement these programs. This is the fundamental premise and challenge if the statement is to be useful.

Page 15, by CHARLES KELLER, JR.

When there is a perception among four or five CEOs that there is a "problem" in the community that needs to get addressed, it is usually possible to get the majority of the CEOs to meet to seek a "solution" to the problem. It usually develops that after a period of time, especially if the "crisis" is mitigated, the CEOs little by little lose interest and send representatives, and the effectiveness of the organization declines. I offer no solution to the problem but merely suggest that it is a matter that needs to be recognized and dealt with. I do not suggest inventing crises.

Page 24, by CHARLES KELLER, JR.

In New Orleans, the Metropolitan Area Committee (MAC) came into being at the time of the "integration crisis" as a broad-based community organization made up of individuals from the business community, the religious professions, academia, and labor, and included members of both races. Through its efforts and the ability of its members to communicate with each other and with dissident and militant groups, New Orleans was able to avoid the riots which devastated Watts, Washington, and other cities. One of its on-going activities is a young leadership forum sponsored jointly by MAC and Tulane University where approximately sixty young leaders, nominated by the members and selected by a committee, met six evenings during the year of membership in the forum to hear the problems of the community outlined by recognized local authorities.

Page 29, by FRAZAR B. WILDE

I think a word of warning is needed on the effort of cities in regard to what direct aid they should render developers. I refer especially to initial periods of tax abatement and other subsidies, as well as such categories of aid as condemnation. I endorse the idea, but am skeptical about going too far. Hartford has been an outstanding example of special aid. Low-cost federal money, which was furnished to a local insurance company, is an example of rather bold procedures, not to mention aid from the state such as was given to the Transportation Center in Hartford.

Page 35, by WILLIAM C. GREENOUGH

This policy statement correctly places primary emphasis on community leadership in cooperation with the imaginative skills of private developers. The crucial role of investment capital deserved additional notice, with emphasis upon the role of very long-term investments in urban ventures exemplified by pension funds. For example, the college world's fund, TIAA, has alone invested or has committed for future investment over $600 million in urban development projects, including Quincy Market in Boston, Baltimore's Harbor Place, City Center in Downtown Minneapolis, Brickyard Shopping Center in Chicago under a UDAG grant, and similar projects in Seattle, Louisville, Stamford, Pasadena, St. Louis, etc.

Most of the future long-term financing for downtown development projects such as mentioned in this report will have to be provided by insurance companies and pension funds. The recommendations of this report are consistent with improving the investment climate and attracting more

pension fund money to urban development. The importance of attracting such funding is indicated by the size of pension assets, $375 billion in 1979, as reported in the recent CED statement *Reforming Retirement Policies*, September 1981.

Page 83, by FLETCHER L. BYROM

What my good friend John Filer says shows much wisdom, but I believe he uses language that could lead a reader to misjudge a corporation's proper role in society. All of us should understand that the principal function of the business corporation in our society is to produce goods and services in a manner which will provide for an expanding base of production, thereby making it possible for society to support improvements in its quality of life. Profit, by providing rent for the savings invested in the capital structure of the enterprise and the funds needed for new plant and equipment to expand production capabilities, is the mechanism which maintains the economic viability of the enterprise and allows it to continue to make a positive contribution to the well-being of society. Profit-making is not the primary corporate purpose.

Page 85, by CHARLES KELLER, JR.

I believe this is one of the most important statements in this entire paper. With the increasing acquisition of locally-owned entities by non-local investors, the importance of the active participation in local affairs by the local managers of nationally-owned operations cannot be over-emphasized. In our area, and I believe nationally, the local executives of the Bell System have made outstanding contributions. So has the local production subsidiary of Standard Oil Co. of California. The local managing partners of the big eight auditing firms and stock exchange members, to name a few, have also been active in local affairs. As indicated in the statement, national corporations should require this of their local representatives as a matter of prime corporate responsibility.

APPENDIX

THE PUBLIC AND PRIVATE SECTORS

As economic terms, *public sector* and *private sector* connote a division in the economy between those organizations that produce goods and services in response to consumer demands registered in the market (the private sector) and those organizations that produce goods and services on the basis of government directive (the public sector).

However, the public sector, or government, is first of all a political institution. It sets the boundaries for, alters, or may specifically state the goals of the community, which includes the private sector. The organizations and individuals who make up the private sector, in turn, are not just economic units; they are also participants in that political process.

PUBLIC SECTOR

The public sector today is more than a support function for the private sector; it is a principal component of the urban economy. Local governments, in conjunction with state and federal agencies and an array of public institutions, are sizable employers, purchasers of goods and services, providers of basic economic services, and generators of nonlocal income through federal and state grants and payrolls. In addition, direct federal and state transfer payments to individuals in the form of social security, military and civil government pensions, welfare and medical payments, and other forms of assistance are an important source of nonlocal dollars in urban economies.

Local government includes a wide array of types—counties, municipalities, townships, villages, special taxing districts, special-purpose agencies—each of which takes a variety of forms and sizes. Together, they affect private-sector activity through laws, regulations, tax and financial policies, and transportation, utilities, public safety and fire protection, waste management, education, recreation, and other civic amenities.

PRIVATE SECTOR

The private sector is far from the homogeneous grouping of businesses imagined in the conventional perception. In addition to profit-making firms, it is comprised of a rich mosaic of nonprofit organizations such as hospitals, schools and universities, museums, research organizations, labor unions, community development and venture-capital organizations, cooperatives, community-service organizations, and other self-help

groups. A still broader view of the private sector encompasses religious institutions, ethnic groups, neighborhood organizations, families, and individuals.

Private organizations that do not attempt to generate a profit are variously defined as the nonprofit, independent, voluntary, and third sector. Of these, some have budgets and revenue sources that fully fund their operations, some have no budgets or revenues that accrue to the organization, and some operate with a combination of revenues and voluntary services.

Even the for-profit businesses that are conventionally equated with the private sector are far less homogeneous than is popularly imagined. Business includes widely disparate enterprises with diverse objectives, only one of which is profit. They produce varied products and services and range in scale from single proprietorships to branches and headquarters of national corporations.

Although private organizations are formed to act on behalf of their own private interests, their actions have an important public dimension. Businesses produce goods and services that are critical to the community and provide the basic store of economic wealth upon which government depends for revenues. Nonprofit and other voluntary organizations provide vital community services. The actions of private organizations can also have public consequences, both negative and positive. Moreover, as corporate citizens of the community, private organizations have a stake in the well-being and future of the community, just as individuals do in their capacity as citizens.

PUBLIC AND PRIVATE CONCERNS

The public sector should not be equated only with what is public. *Public* refers to that which affects the entire community. A public concern may include the impact of actions on individuals who are not voluntary participants in those actions. The public sector does not necessarily address every public concern, nor does its every action by definition address a public interest.

Similarly, the private sector should not be equated only with what is private. *Private* refers to that which affects only a particular person, group, or organization. The activities of the private sector have clear public consequences, and the individuals and organizations of the private sector, as members of the community, have an interest in, and a responsibility for, public concerns.

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